ANNUAL REPORT 2022

HEATHROW (SP) LIMITED

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

OUR PURPOSE TO MAKE EVERY JOURNEY BETTER

STRATEGIC REPORT

GOVERNANCE REPORT

FINANCIAL STATEMENTS

SECTION 01
STRATEGIC REPORT

AT A GLANCE

Heathrow grew more than any other airport in the world last year

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

Service is getting back to pre-pandemic levels

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

We continued to be loss making throughout 2022

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

We are making good progress on decarbonising global aviation

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

CHAIRMAN'S LETTER

"Dear All,

After two of the most challenging years in our history, with aviation grounded for large periods, 2022 marked the year of recovery. Despite a slow start, the safe removal of all travel restrictions in the UK in March released a wave of pent-up demand which continued throughout the year. This presented a different set of challenges for our airport and required some difficult choices to be made at times, as the entire sector worked hard to return to normal."

Our fast recovery has been possible due to the hard work and commitment of thousands of colleagues who have worked tirelessly to safely reopen the front door of the UK, and I want to extend my most sincere thank you to every one of you.

At Heathrow, passenger traffic increased to 61.6 million – a three-fold increase on the previous year. This marked Heathrow as the fastest growing airport in the world and we climbed to eighth largest globally, our highest position since 2019. Adjusted EBITDA increased to £1.7 billion, only 12% down on 2019 and a reflection of the strong financial discipline that served the business so well during 2020 and 2021.

In the summer, we had to make some difficult operational decisions as the rapid growth in demand exceeded the capabilities of the entire airport ecosystem. These decisions are never easy to take, especially when they involve capping the number of passengers departing the airport, even for a relatively short period of time. However, we did so with the safety of our colleagues and passengers as our priority, and the action we took ensured that the majority of people using the airport during this period and since, have had better, more reliable journeys.

From a financial perspective, our liquidity position remained strong, which allowed capital expenditure to increase for the first time in three years. While it remains below pre-pandemic levels, we have a programme of investment planned that, subject to the final H7 regulatory settlement, will improve the experience for passengers in the coming years. At the same time, we retained the full support of our investors and banking partners, completing over £1.9 billion of funding including the refinancing of our Revolving Credit Facility. The continuous support from our shareholders combined with the successful execution of our pandemic protection plan, has strengthened our balance sheet, and we are financially ready for this period of resumed growth.

As we move forward, we expect another year of growth as the sector remains on the road to recovery. Operationally, we continue to build back capacity across Team Heathrow. Our experience over the second half of last year will stand us in good stead for Easter and summer and we are confident that we will serve the demand that our airline partners are working hard to bring in.

We are passionate about protecting the benefits of aviation in a World free of carbon. We continue to take a lead role in decarbonising the aviation sector and it was extremely pleasing to see a global net zero deal reached at the ICAO Assembly in October. This provides the framework for the sector to move forward at pace in the coming years. We are also committed to supporting the Government's Jet Zero Strategy. We are working with them to create a mandate on the supply of sustainable aviation fuel ('SAF') and to consider mechanisms to reduce the material pricing gap with fossil-based fuels. Our financial incentives scheme will make SAF a regular feature of fuel supply at the airport and we are expecting to triple the volume of SAF used this year. We've also recently launched our Giving Back Programme, which aims to help 1 million local people by the end of the decade through financial support to charities, access to employment and an airport volunteer taskforce.

Our ability to deliver improved services for passengers in the coming years will depend on reaching a fair and balanced regulatory settlement for the H7 period. It's frustrating for all stakeholders that we start 2023 without a final decision from the CAA. Whilst we don't want to trade-off any investment in our plan, we need the confidence from the CAA that cashflows will be protected and investors can earn a fair return. The longer it takes our regulator to provide fair and reasonable economic conditions, the more challenging it will be to deliver to passengers the level of resilient service they are requesting.

Thank you again to all my colleagues. With the pandemic behind us we have the prospect of an exciting period of sustainable and efficient growth ahead. We are at our best when we work together, as we demonstrated throughout 2022, and I look forward to seeing the business deliver for our passengers every time they make a journey through Heathrow.

LORD PAUL DEIGHTON
Chairman

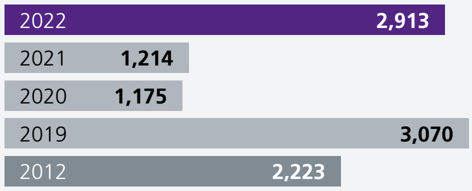
OUR KEY PERFORMANCE INDICATORS

FINANCIAL KPIs

REVENUE

£2,913m

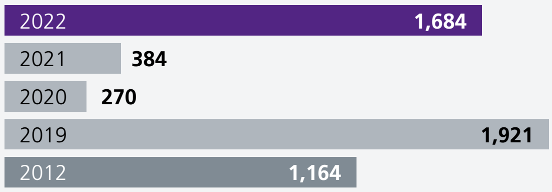
Revenue is an indicator of our top-line growth. It consists of aeronautical income, which is generated from fees charged to airlines for use of the airport's facilities, retail and other income from a variety of other sources. Revenue increased 140% in the year due to the recovery of passenger traffic following the easing of COVID restrictions and an increase in aero charges set by the CAA's H7 interim tariff.



ADJUSTED EBITDA [1 2]

£1,684m

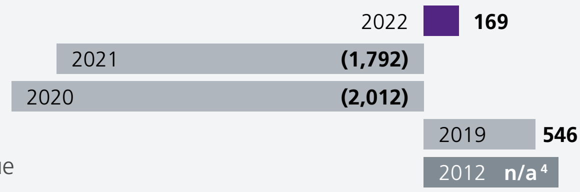
Adjusted EBITDA is an indicator of how we are delivering top-line revenue growth while remaining efficient and controlling operating costs. Adjusted EBITDA increased by 339% primarily driven by increased revenue.



PROFIT/(LOSS) BEFORE TAX

£169m

Profit/(loss) before tax is a measure of total return generated before taxation. Profit before tax includes net finance costs before certain re-measurements of £1,598 million and a non-cash fair value gain on financial instruments of £908 million.

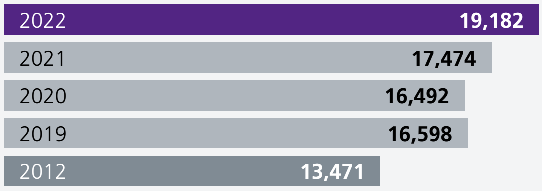


REGULATORY ASSET BASE [1]

£19,182m

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 10% in the year due to the impact of increased year on year inflation on the asset base offset by assumed regulatory depreciation for the year.

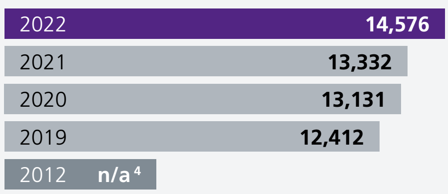


CONSOLIDATED NOMINAL NET DEBT [1]

£14,576m

Consolidated nominal net debt is a measure of indebtedness used by our financers. Consolidated nominal net debt increased by 9% in the year.

Senior (Class A) and junior (Class B) gearing ratios, calculated by dividing consolidated nominal net debt by RAB, were 64.9% and 76.0% respectively (31 December 2021: 64.6% and 76.3% respectively)



[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 223 of the financial statements.

[2] EBITDA (2022: £1,629m, 2021: £527m) is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is EBITDA excluding fair value adjustments on investment properties and exceptional items. These APMs are reconciled on page 223 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 2012 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. 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 38.

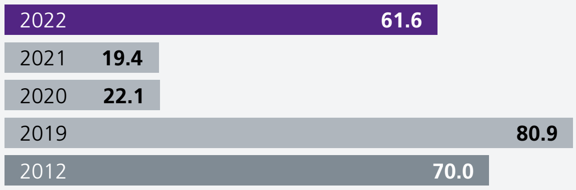
OPERATIONAL AND CARBON KPIs

PASSENGERS

61.6m

The sum of all arriving, connecting and departing passengers.

We welcomed 61.6 million passengers through the airport in 2022. This is a 218% increase on the prior year, but 24% below the record level of passengers in 2019.



PASSENGER SATISFACTION

3.97

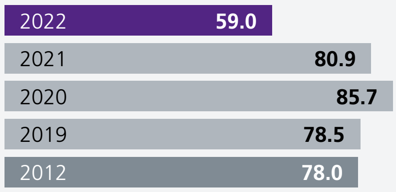
An independent passenger satisfaction survey compares our performance against circa 350 airports worldwide. Passengers rate their experience on a scale from 1.00 to 5.00, where one is 'poor' and five is 'excellent'. Our vision is to give passengers the best airport service in the world. Our passenger satisfaction score in 2022 reflects operational pressures in the year with our European competitor airports also recording decreased levels of passenger satisfaction.

DEPARTURE PUNCTUALITY

59.0%

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

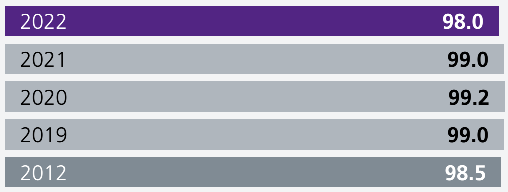
Departure punctuality decreased to 59.0% reflecting delays at other airports and airspace congestion across Europe.



BAGGAGE CONNECTION

98.0%

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'.

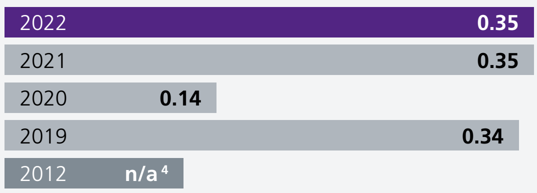


LOST TIME INJURIES

0.35

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

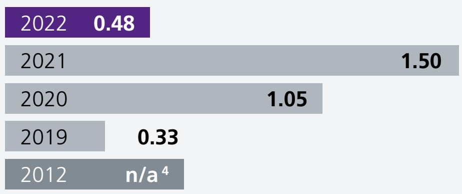
We want everyone at Heathrow to go home safe and well to their loved ones at the end of each day. Our lost time injuries metric was flat compared to 2021.



SCOPE 1 AND 2 CARBON INTENSITY[5]

0.48

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 2022 our carbon emissions per passenger were 0.48, down from 1.50 in 2021.



HISTORY OF HEATHROW

For over 75 years we have been an integral part of the UK and its history. From a private airfield to one of the world's busiest international airports, a lot has changed in that time.

In 1930, British aero engineer and aircraft builder Richard Fairey paid the Vicar of Harmondsworth £15,000 for a 150-acre plot to build a private airport to assemble and test aircraft.

During World War II the Government requisitioned land in and around the ancient agricultural village of Heath Row, including Fairey's Great West Aerodrome, to build RAF Heston, a base for long-range troop-carrying aircraft bound for the Far East. An RAF-type control tower was constructed, and a 'Star of David' pattern of runways laid, the longest of which was 3,000 yards long and 100 yards wide.

Work demolishing Heath Row and clearing land for the runways started in 1944. However, by the time the war had ended, the RAF no longer needed another aerodrome and it was officially handed over to the Air Ministry as London's new civil airport on 1 January 1946. The first aircraft to take off from Heathrow was a converted Lancaster bomber called Starlight that flew to Buenos Aires.

The early passenger terminals were ex-military marquees which formed a tented village along the Bath Road. To reach aircraft parked on the apron, passengers walked over wooden duckboards to protect their footwear from the muddy airfield. There was no heating in the marquees, which meant that during winter it could be bitterly cold. By the close of our first operational year, 63,000 passengers had travelled through London's new airport.

By 1951 passengers had risen to 796,000 and British architect Frederick Gibberd was appointed to design permanent buildings for the airport. The focal point of Gibberd's plan was a 122ft-high control tower. There was also a passenger terminal called the Europa Building (later renamed Terminal 2) and an office block called the Queen's Building.

In 1969, Terminal 1 opened, by which time five million passengers a year were passing through the airport as the jet age arrived with Boeing 707s, VC10s and Tridents taking travellers from Heathrow to and from all parts of the world.

The 1970s marked the decade when the world became even smaller thanks to Concorde and wide-body jets such as the Boeing 747. As the decade drew to a close, 27 million passengers were using Heathrow annually. Demand for air travel also created the need for another terminal, Terminal 4, which opened for business in 1986.

By the time we celebrated our 60th anniversary in 2006, we had served around 1.4 billion passengers on over 14 million flights.

Terminal 5 opened in March 2008 and marked the beginning of an exciting new chapter for Heathrow. The brand-new Terminal 2: The Queen's Terminal opened for business on 4 June 2014.

In 2020, the COVID-19 pandemic had a significant impact on the aviation industry. During this period, we used our available capacity to prioritise cargo flights with specific medical items that were urgently needed in the COVID-19 pandemic including hospital equipment, PPE, sterilisation and disinfecting products, medical oxygen, medicines, swabs and test kits. Heathrow was also a crucial lifeline to the hundreds of thousands of UK residents returning home.

Despite 2021 being one of the most difficult years in our history, we used the anniversary to celebrate the past 75 years. In 2022, with passenger demand returning, we are focused on building back better and getting back to what we do best – reuniting friends and families, creating connections and making memories.

1944
Construction of London Airport's runways begins.

1946
London civil airport officially opens.

1955
Her Majesty The Queen opens the Central Terminal Area and Control Tower.

1966
The British Airports Authority is created. London Airport is renamed 'Heathrow'.

1969
Terminal 1 opens.

1986
His Royal Highness Prince Charles and Princess Diana inaugurate Terminal 4.

1987
The British Airports Authority is privatised as BAA plc.

1998
The Heathrow Express rail service is launched.

1999
The Terminal 5 public planning inquiry ends – the longest in UK history.

2007
A new air-traffic control tower is operational – the tallest in the UK.

2008
Terminal 5 is officially opened by Her Majesty The Queen in March.

2009
Terminal 4 undergoes a major refurbishment to improve facilities.

2010
Demolition work starts on Terminal 2 to make way for its £1 billion replacement.

2014
The new Terminal 2: The Queen's Terminal opens for business on 4 June.

2015
Terminal 1 closes.

2018
MPs overwhelmingly vote in favour of Heathrow expansion.

2019
Heathrow welcomes a record 80.9m passengers.

2020
Heathrow remains open during the COVID-19 pandemic to help people get home and to secure vital supply lines for the UK.

2021
Heathrow celebrates its 75th anniversary.

"Many people who have paid tribute to Her Majesty Queen Elizabeth II have observed how they felt that she was part of their lives. That is how we all feel at Heathrow. She was a frequent traveller through the airport on her trips around the world. She was also a close neighbour when she was at home in Windsor, so close that you can see the castle clearly from the forecourt of Terminal 5. She helped us celebrate many milestones in Heathrow's growth to be one of the great airports of the world – opening the original Terminal 2 (The Queen's Building) in 1955, Terminal 5 in 2008, and the new Terminal 2 (The Queen's Terminal) in 2014.

Heathrow was also where she first landed when she returned from Kenya as Queen to be met by Sir Winston Churchill, after the death of her father, King George VI.

When we were preparing for the Royal opening of T2 we found the original visitors book from the late 1940's, which carried the signatures of many members of her family when they flew through Heathrow, at a time when it was mainly made of army surplus tents. She was very thoughtful as she looked through the book, but lit up when she saw her own signature, and Prince Philip's, from when they flew out to Paris for their first official trip in May 1948.

None of us can imagine how hard it must be to live a life of service and duty under the gaze of the world for 70 years. She was a truly extraordinary person and we at Heathrow are grateful for the moments she spent with us and the service she's given to our country."

JOHN HOLLAND-KAYE
Chief Executive Officer

OUR BUSINESS

WHAT WE DO

We are a service business that 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 that rely on local demand alone. We are currently the busiest hub airport in Europe and the eighth busiest airport globally[1].

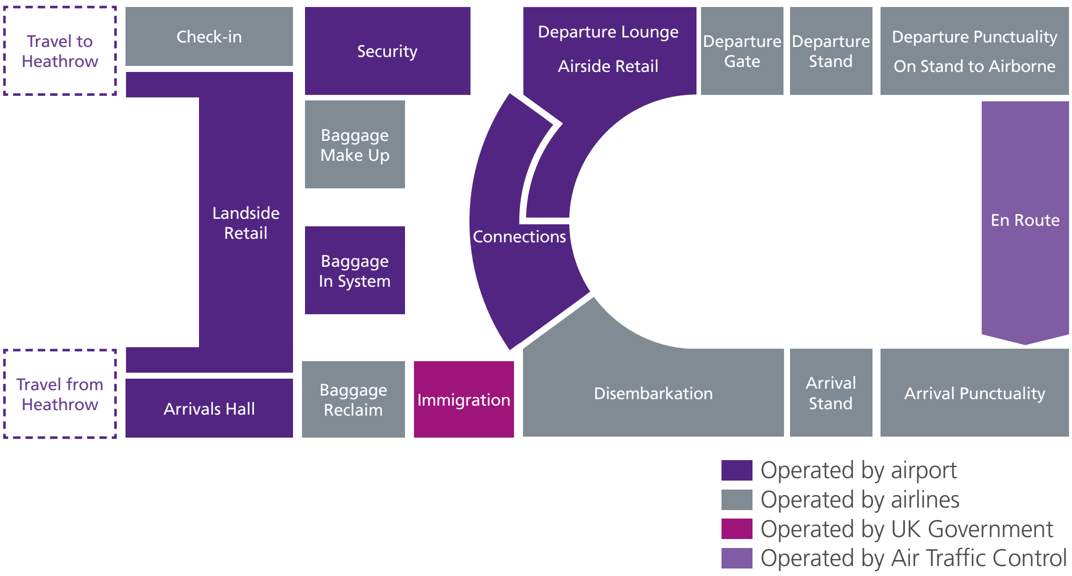
In 2022, we served 61.6 million passengers, a 218% increase in passenger numbers compared to the prior year (2021: 19.4 million) and 24% below pre-COVID level in 2019 of 80.9 million.

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. Heathrow was named best airport in Europe and second best airport in the World at the 2022 Business Traveller Awards.

During 2022, with the removal of all travel restrictions, we saw a surge in demand and a steady build in traffic. Scaling up quickly is challenging with an airport structure that is complicated and services that are delivered by multiple parties. As the diagram below shows, the airport structure involves four main stakeholder groups: the airport, the airlines, UK Government and Air Traffic Control. In practice it involves 85 airlines, 8 principal ground handlers, nearly 200 secondary airside handling companies and several Government functions. Ramp up requires all companies across the airport to increase capacity at the same pace.

Team Heathrow structure



[1] Based on passenger numbers for the 12 months to 30 November 2022

EMMA GILTHORPE
Chief Operating Officer

In 2022 we established a 'Build Back Capacity' programme covering all aspects of the airport ecosystem to progressively increase capacity for winter 2022. The focus was to build back capacity, resilience and service levels. Capacity and demand alignment being key, to ensure the operation was not over-stretched, support from the Recruitment Task Force, reduced Heathrow's vacancy gap, and airline ground handling medium-term resilience and efficiency enhancements.

The creation of Team Heathrow Director, led by one of our strongest operational leaders, to work with airlines, ground handlers and our own team to drive up performance leading to a safer environment, better service and efficiency. During 2022 we regularly deployed our Here to Help programme, where non-operational colleagues deploy into the operation in service support roles, to give our passengers the very best service possible during our peak times.

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 1.4 million tonnes of cargo valued at £203 billion passing through it in 2022.

Sustainability is core to our strategy. In 2022, we released an updated version of "Heathrow 2.0", our plan to connect people and planet.

Our strategy reflects the new reality in which Heathrow is operating, and focuses on delivering outcomes that align with the most material colleague, community, and environmental issues for the airport, namely:

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

Further details of our commitment to sustainable growth can be found in the section starting on page 32.

INVESTMENT AND INFRASTRUCTURE

We have invested over £13 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. We invested £521 million in 2020 and £252 million in 2021. In 2022 we invested £442 million, predominantly on various programmes to ensure the airport's safety and resilience as passenger demand returns.

Terminals

Each of our four operational terminals is either relatively new or recently refurbished. During COVID-19 terminal operations were consolidated, and by June 2022 all terminals were operational with the reopening of Terminal 4. Our total terminal capacity is now back to an estimated 85 million passenger per year. We have a total of approximately 58,600 square metres of retail space served by 314 open retail and food and beverage outlets.

Runways

We operate two parallel runways, generally operating in 'segregated mode', with arriving aircraft allocated to one runway, and departing aircraft to the other. To mitigate noise impact to residents living below the approach and departure routes, the runways for arriving and departing aircraft are usually swapped at 15:00 each day, or as weather conditions dictate.

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 2022, we operated at 78.5% of this cap (2021: 39.6%) with ATMs growing in line with increased passenger demand.

Other infrastructure

We own railway infrastructure including stations, tunnels 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. 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, it 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 UKs regulated airports to generate revenues which are sufficient to finance their operating and capital expenditure requirements and to provide a regulated rate of return on their RAB. Each regulatory period is set for a defined period 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.

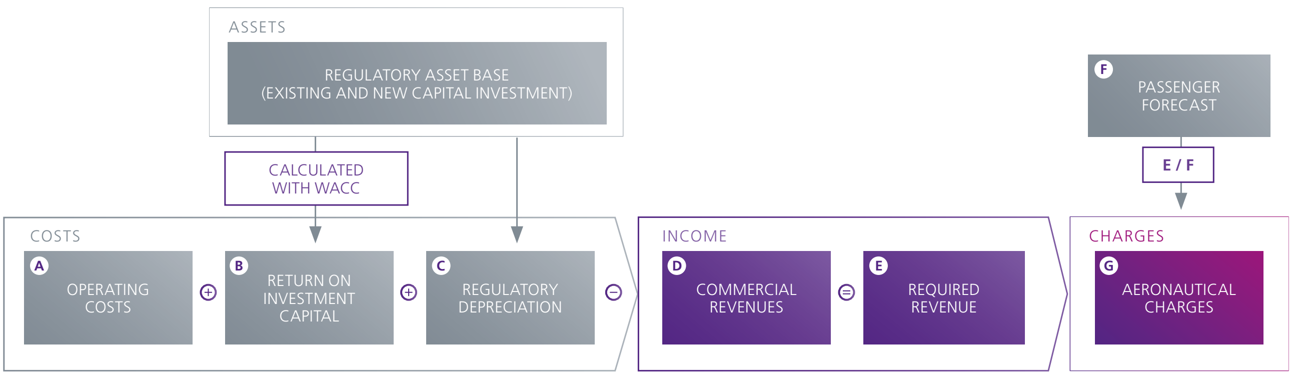
The economic regulation framework sees the CAA setting the maximum level of airport charges for Heathrow using a per-passenger price-cap mechanism in real terms. For H7 this is a CPI +/- X framework which incorporates an allowed return on RAB.

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. For H7, the CAA is proposing to index charges based on forecast CPI.

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 linked to CPI 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.
- It is also proposed that the H7 price control will include a traffic risk sharing mechanism to provide some protection against under performance on traffic volumes and sharing of our performance.
- The framework also expressly sets 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

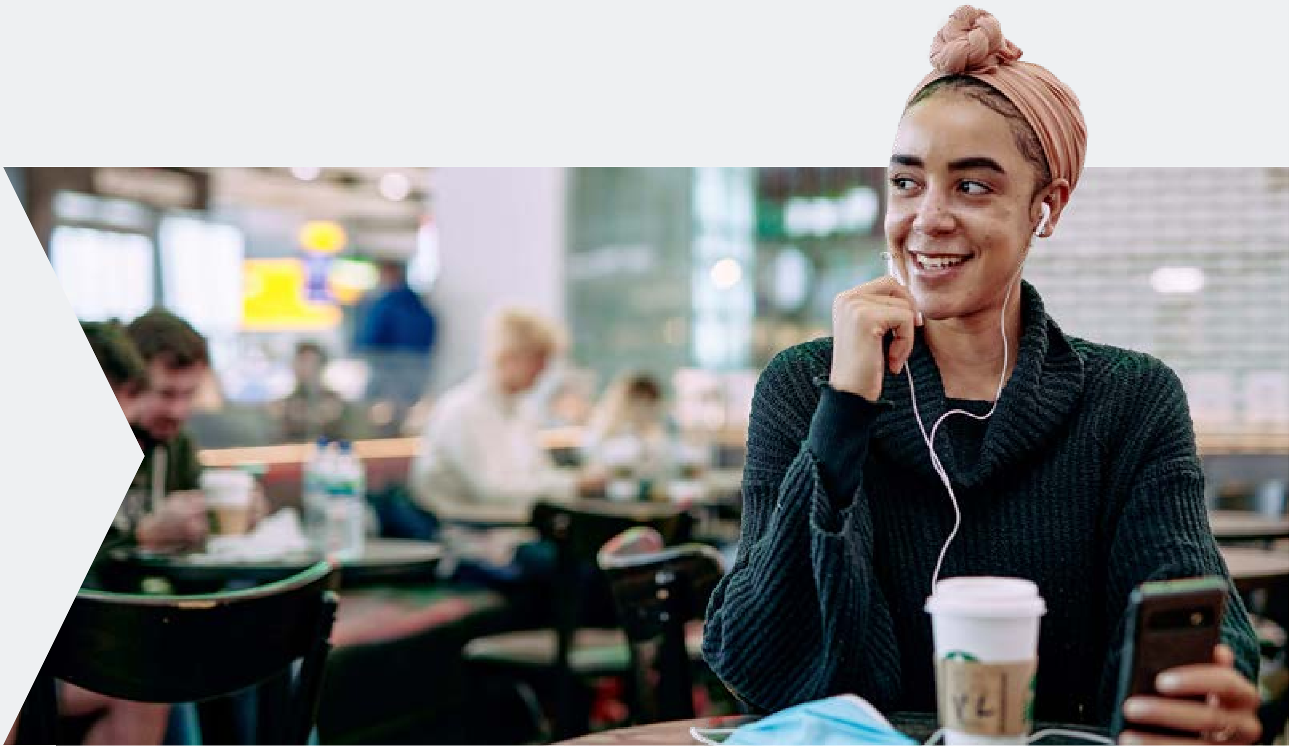
2022 REGULATORY DEVELOPMENTS

The CAA published its Final Proposals for the next five-year regulatory period to start in 2022, known as H7, on 28 June 2022. This proposed an average charge of £24.14 (2020 CPI) across the H7 period. Our analysis shows that the CAA's proposals, as currently set out, are not deliverable due to errors in the CAA's forecasts of key regulatory building blocks. If these errors are not rectified, we will not be able to implement the investment set out in our Revised Business Plan ('RBP'), which delivers what passengers want and need on their journey through Heathrow. We responded to the CAA's Final Proposals on 9 August, detailing why implementation of its Final Proposals for H7 would result in an airport that falls far short of what our passengers expect. We are aligned with the CAA on the key outcomes consumers expect in H7 – but in advance of its Final Decision, the CAA must now reconsider its forecast of the key building blocks to ensure the price control is deliverable and can deliver on these outcomes.

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

The CAA will continue the H7 process into Q1 of 2023 with a final decision expected in March.

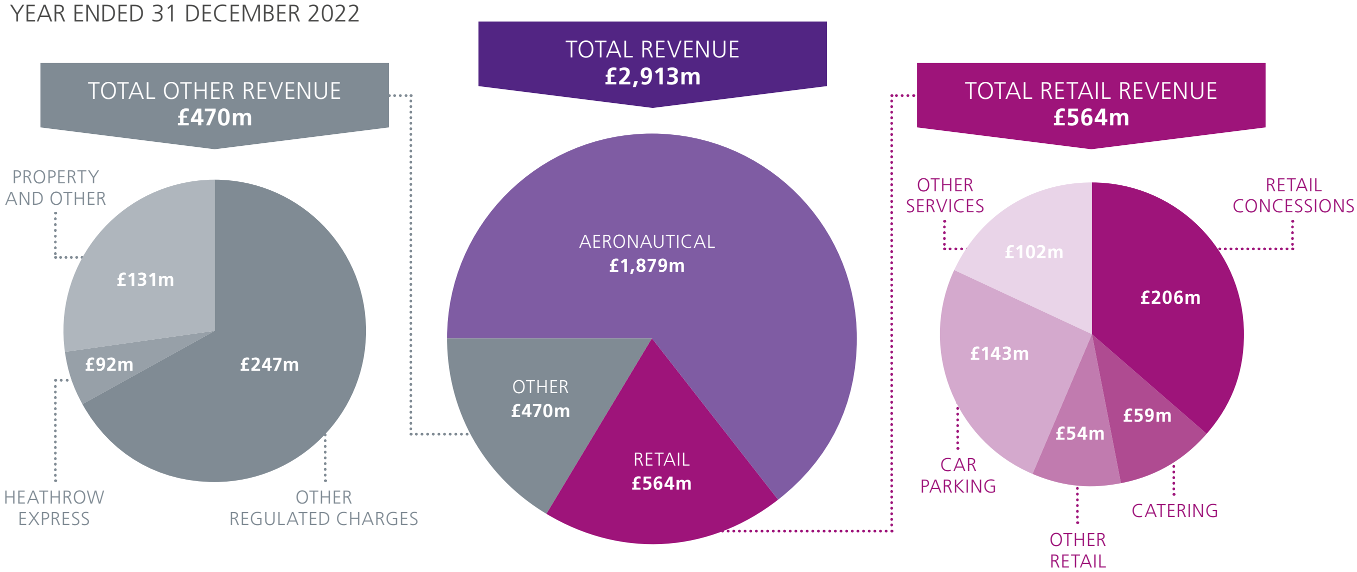
Given the longer than anticipated timetable for setting a Final Decision, on 1 February the CAA confirmed its decision to implement a price cap of £31.57 for 2023. This is in line with the price cap for 2023 set out by the CAA in its Final Proposals. This will be in place for the entirety of 2023 with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



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 2022



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 (Domestic, Common travel area, European and Rest-of-world) and type (transfer and non-transfer passengers). These are passed on directly by airlines to passengers.

ROSS BAKER
Chief Commercial Officer

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 includes a multiplier effect for any movements that are unscheduled between 23:30 and 06:00. Arriving aircraft are also subject to an 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.

OPERATING REVIEW

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

JOHN HOLLAND-KAYE
Chief Executive Officer

REVIEW OF THE YEAR

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

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

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

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

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

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

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

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

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

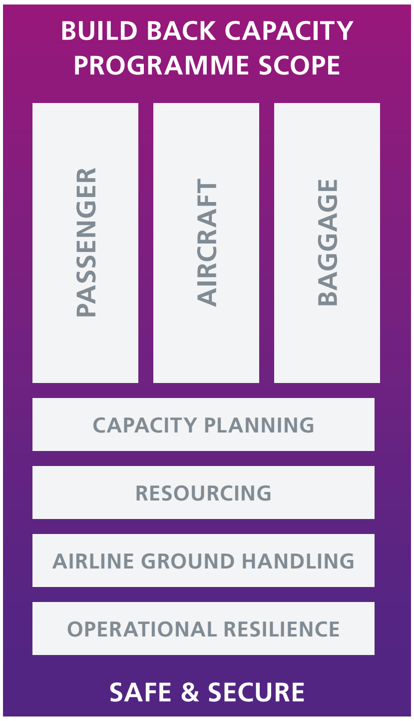
In terms of regulation, the CAA published its Final Proposals for the H7 period in June. Our analysis shows that the CAA's Final Proposals, as currently set out, are not deliverable due to errors in the CAA's forecasts of key regulatory building blocks. We responded to the CAA's consultation in August,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

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

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

BUILD BACK CAPACITY

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



BREXIT

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

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

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

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

KEY MANAGEMENT CHANGES

Mark Brooker joined the Board of Heathrow Airport Holdings Limited as a Non-Executive Director in April. He brings a wealth of digital, financial and transport expertise to the Board as the airport gears up for growth, post-pandemic.

Mr Brooker has a wide breadth of experience across high-profile, operational and strategic roles including Chief Operating Officer for Trainline and Betfair Group Plc and will support the airport in navigating the challenges associated with rapid growth, whilst remaining focused on providing excellent service and taking advantage of digitalisation in a post-COVID era.

We also welcomed Mine Hifzi as our new General Counsel and Company Secretary. Mine has joined the Executive Team and brings a wealth of experience from the Telecoms and Media sectors.

On 2 February 2023, I announced my intention to step down as Chief Executive Officer of Heathrow and as an Executive Director of the HAHL Board during 2023.

OUTLOOK

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

JOHN HOLLAND-KAYE
Chief Executive Officer

22 February 2023


PROUD
Network
Heathrow

OUR STRATEGY

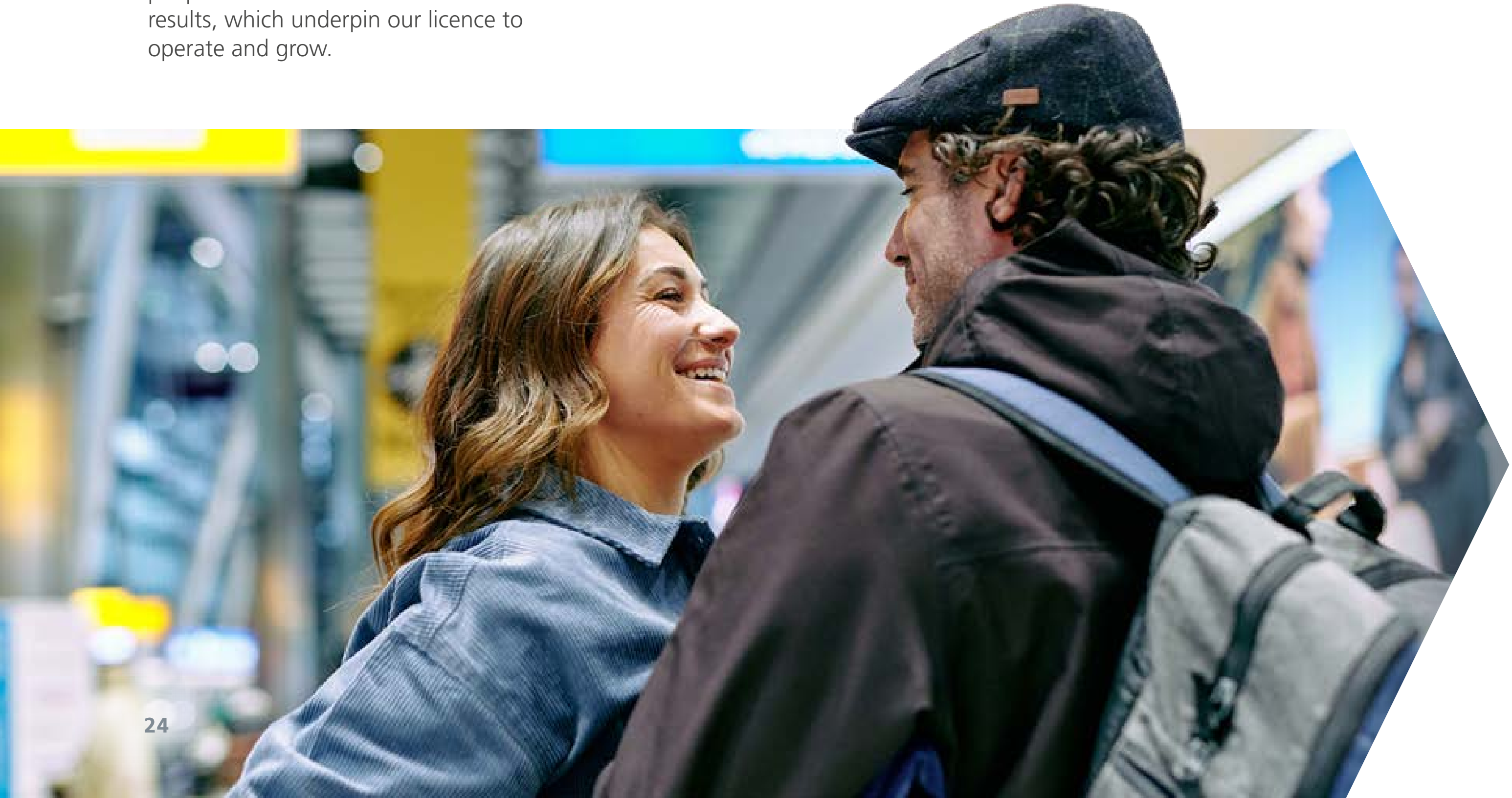
Our vision is to give passengers the best airport service in the world. We deliver passenger service through everyone at Heathrow working together to a common plan – in particular to make sure that passengers, bags, planes and cargo have a fast and reliable journey. We will take a lead with Team Heathrow to achieve this. In the post-Covid world, passengers expect to have an easy, clean journey where they feel supported and reassured; delivering on these expectations will be critical to give us the competitive advantage we need to win the recovery. The theme of growth runs through each of our four business priorities: Mojo, Transform Customer Service, Beat the Plan, and Sustainable Growth.

Heathrow is the UK's only hub airport and largest port. We are a national asset and maintain strong links with Government to support the UK's national interest and our own as the UK's hub in order to regain our position as Europe's biggest hub. We still believe that the UK will need an expanded Heathrow to connect all of Britain to global growth, and will work to deliver that in a way that is deliverable, affordable, financeable and sustainable.

We will 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. 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. We have developed our plan around our four priorities. We need our leadership team to focus on growth and doing everything we can to achieve it. This will also mean not doing some things; we have crafted a carefully prioritised capital plan, which delivers initiatives that will best enable our growth over the coming years. While our plans can be adapted if required, we do not anticipate any additional significant initiatives being included in the capital plan at a later date.

CHRIS ANNETTS
Chief Strategy Officer



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

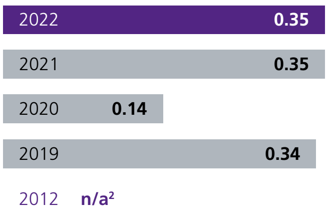
The strategic framework also sets our aspirations for each of the five strategic stakeholderholder groups (passengers, colleagues, airlines, investors, UK communities and environment) and the key components of our Heathrow Ecosystem (statutory authorities, supply chain and commercial partners).

PERFORMANCE AGAINST STRATEGIC PRIORITIES

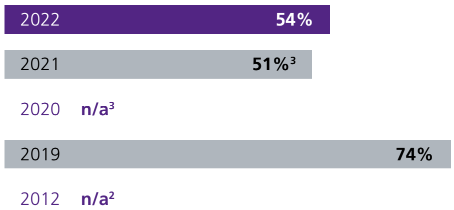
We want Heathrow to be a great place to work and continue to provide fantastic opportunities for our talented colleagues to develop their careers. We have continued building strong leadership capability and across the year 247 colleagues (2021: 298) were promoted and 285 colleagues (2021: 245) were assigned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

PERFORMANCE INDICATORS

Lost-time injuries[1]



Colleague engagement[1]



[1] Injuries sustained by colleagues whilst conducting work related duties, resulting in absence from work for at least a day, calculated as a moving annual frequency rate of the number of incidents in the last 12 months per 100,000 working hours (Lost time injuries); miniPulse colleague survey results (Colleague engagement).

[2] Figures are not available for 2012 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.

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

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

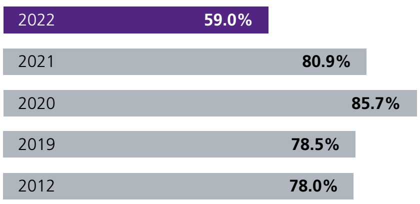
Satisfaction with the Courtesy and Helpfulness of Airport Colleagues decreased to 4.38 versus 2021 (4.58) but represented an improvement versus 2019 (4.35) and exceeded the 2022 target of 4.37. Overall, 45% of passengers rated Heathrow on this metric as 'Excellent' during 2022, an 18% points decrease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

PERFORMANCE INDICATORS

Passenger satisfaction ('ASQ')[1]

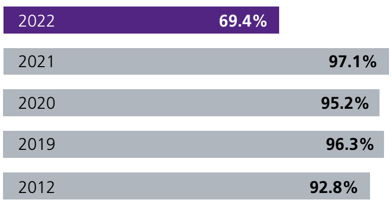
Baggage connection[1]

Departure punctuality[1]



Courtesy and Helpfulness of Airport Colleagues ('QSM')[1]

Security queuing[1]



[1] 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 travelling with the passenger (Baggage connection); quality of service monitor ('QSM').

[2] 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.

[3] Due to COVID-19, interviewing was suspended between March and July 2020 for the courtesy and helpfulness of airport colleagues QSM in 2020.

PERFORMANCE AGAINST STRATEGIC PRIORITIES (CONTINUED)

BEAT THE PLAN

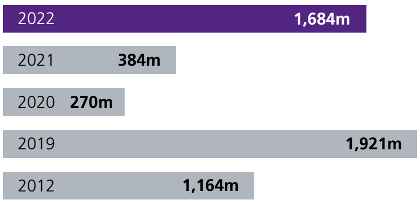
In 2022, Heathrow welcomed 61.6 million passengers, an increase of 42.2 million compared to the prior year (+217.6%). This was the highest passenger increase of any major airport globally. Passenger numbers in December were close to 5.8 million, which was 11% below 2019 levels, the highest since the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

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

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

PERFORMANCE INDICATORS

Adjusted EBITDA[1] £m



Passengers (millions)[2]	2022	2021	Var. %[3]
UK	**3.4**	1.8	89.8
Europe	**25.7**	8.8	192.8
North America	**15.4**	3.3	361.4
Asia Pacific	**5.5**	1.8	219.9
Middle East	**6.9**	2.3	201.9
Africa	**2.9**	1.0	176.8
Latin America	**1.7**	0.4	317.5
Total passengers	**61.6**	**19.4**	**217.6**

Other traffic performance indicators[2]	2022	2021	Var. %
Passenger ATM[4]	**367,160**	160,744	128.4
Load factors (%)[4, 5]	**77.0**	55.8	38.0
Seats per ATM	**218.0**	216.3	0.8
Cargo tonnage (000s)	**1,351**	1,403	(3.7)

1 Further analysis can be found in the Financial Review on page 48.
2 For the year ended 31 December.
3 Calculated using unrounded passenger figures.
4 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.
5 2021 load factor % has been restated to correct historical reporting error.

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

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

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

Connecting our people and planet will require Heathrow to grow as the demand for aviation recovers and expansion still forms part of that strategy.

Further details can be found in the expansion section on page 46.

OUR COMMITMENT TO SUSTAINABLE GROWTH

In February 2022 we published an update to Heathrow 2.0, our plan to connect people and planet by focusing on the issues where Heathrow needs to make the biggest difference this decade. 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. The timeframe for our goals is this decade (by 2030). In some cases, we have set shorter term milestone targets, for example to the end of 2026.

We have already made good progress on delivering against our plan, putting in place the foundations for further success, building the relationships and collaborations that will enable progress and advocating for developments to the national and international systems that will be vital for change to happen at pace and scale.

Our 2022 Sustainability Report can be found at www.heathrow.com/sustainability

In this report, we have included 2022 data on several key issues. Bureau Veritas UK Limited have provided limited assurance for Heathrow's greenhouse gas ('GHG') emissions data. Bureau Veritas is also conducting a limited level of assurance performed in accordance with the International Standard on Assurance Engagements ('ISAE') 3000 for Heathrow 2.0 noise, charity donation and diversity KPIs covering the period 1 January 2022 to 31 December 2022. Verification statements and further detail across the breadth of issues covered in Heathrow 2.0 can be found in our 2022 Sustainability Report.

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.

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.
- **Carbon and Sustainability Delivery Committee:** Its members are senior departmental leaders. In 2022 it had a dual remit:
  - Ensures that Heathrow 2.0 is embedded and implemented across the business and shapes departmental sustainability plans.
  - Carbon Programme sponsorship, reporting and performance review.

In 2023 this will become two separate committees: the Heathrow 2.0 Leadership Committee and the Carbon Programme Committee.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 86.

NET ZERO AVIATION

Air travel is a force for good in the world. It brings trade and tourism to every corner of the globe and is helping millions out of poverty, building understanding across cultures and connecting families. But those benefits cannot come at any cost. Climate change is an existential threat to our sector, to our planet, and we must address it. We must take the carbon out of flying.

Heathrow Airport has set out how it aims to get to net zero carbon emissions in "Heathrow 2.0". We have set goals to cut carbon in the air by up to 15% and on the ground by at least 45% by 2030, from 2019 levels, reflecting the urgency to achieve emissions reductions this decade. To do this we continue to make changes to our buildings, infrastructure and operations, but also work with partners at the airport and across our industry to cut carbon in areas requiring collaboration and coordination. Any impact of these changes is reflected in the Group's financial statements, to the extent we have financial obligations or if the asset replacement programs impacts the useful economic lives of existing assets.

Cutting carbon in areas such as surface transport, supply chain and airspace design requires action with urgency and purpose by us alongside airlines, manufacturers, fuel producers and others.

It will also require the same urgency and purpose from the UK Government and from states around the world. With the right focus we can collectively take the carbon out of flying and protect the benefits of aviation for the future.

2022 was a year of big developments in net zero carbon – with the publication in July of the UK Government's "Jet Zero Strategy" and a global agreement on a net zero 2050 target at the UN International Civil Aviation Organisation ('ICAO') in October. These developments support the bold, but plausible goals set out in "Heathrow 2.0".

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 2022

In February 2022 we published our Net Zero Plan as part of a refreshed Heathrow 2.0. It 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, the 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.

During the COVID-19 pandemic – the worst crisis to face the aviation industry – the sector continued to back net zero. In February 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 airline sector globally committed to net zero by 2050 through its industry body – the International Air Transport Association – the first time an entire global sector has made such a commitment. This occurred shortly ahead of COP26, in September 2021.

2022 saw the final crucial commitment falling into place, with governments globally signing up to net zero by 2050 at the UN International Civil Aviation Organisation Assembly in October.

With the commitments in place, 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 fuel ('SAF') and stimulate demand to make it more cost competitive with fossil kerosene. At the Farnborough Airshow in July 2022, the UK Government launched its "Jet Zero Strategy" – setting out its view on how UK aviation will get to net zero through a combination of system efficiencies, SAF and zero carbon emissions flight ('ZEF').

The strategy confirmed the Government's intention to introduce a SAF mandate and have five SAF plants in construction in the UK in 2025.

SAF is the priority for cutting carbon emissions, but there is also progress in developing the zero carbon aircraft of the future, supported by government and private investment.

Major developments during 2022 underline why we firmly believe that Heathrow and the wider UK aviation sector will follow a transition pathway with measures most closely aligned to the Climate Change Committee's "Widespread Innovation" scenario. They include the following:

ACHIEVING COMMITMENT FOR A GLOBAL NET ZERO GOAL FOR AVIATION

The International Civil Aviation Organisation ('ICAO') is a United Nations agency responsible for the development of policies, standards and recommended practices ('SARPs') for international civil aviation. ICAO holds Assembly meetings with all Member States (193) not less than once in three years and is convened by its Council. At its 2019 Assembly ICAO agreed to assess the feasibility of a long-term carbon aspirational goal for international civil aviation to be presented to the 41st session in 2022. The ICAO Committee on Aviation Environmental Protection ('CAEP') developed the technical work which supported a historic agreement at ICAO's 2022 Assembly. A commitment to reach net zero carbon emissions for international civil aviation by 2050 was made, with a robust consensus-building process which included, for example, global aviation dialogues ('GLADs') led by ICAO, and the development of coalitions, such as the International Global Aviation Climate Ambition Coalition which was led by the UK during its COP26 presidency.

This is a significant shift in a short space of time, demonstrating the growing momentum behind delivering net zero aviation. Attention now turns to implementation and the critical role that will be played by SAF.

SCALING UP SUSTAINABLE AVIATION FUEL ('SAF')

A growing number of airlines are making commitments to purchase SAF – a key element of the industry's net zero roadmap. SAF can be used with existing aviation fuel pipelines, airport infrastructure and aircraft and therefore there is no requirement for significant upgrades to airport infrastructure, or operational changes.

Our biggest customer, IAG, is aiming for 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 ('CST') – a global group of airlines, manufacturers, airports, fuel companies, and users of air travel convened by the World Economic Forum – 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 Heathrow is not in the 'value chain' for SAF – we do not buy, use or supply SAF itself – we have been supporting this critical agenda in several ways:

Policy advocacy

Our approach to policy has been focused on supporting a SAF mandate and a price mechanism to both signal demand and de-risk investment. In the UK, we are working with aviation partners to advocate these policies at all levels of government, including through the RISE campaign, supporting the development of a UK SAF industry. 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 continued its active involved in the Jet Zero Council throughout 2022, which is led by our COO, Emma Gilthorpe.

Government policy is critical, but corporate demand can play a role in the interim. John Holland-Kaye also leads the aviation taskforce of the Sustainable Markets Initiative ('SMI') founded by HRH The King while he was The Prince of Wales. Launched at the World Economic Forum ('WEF') Annual Meeting in Davos in 2020, it brings together companies acting to collectively accelerate progress in areas essential to the net zero transition. At COP27 in November, the SMI, in cooperation with the Clean Skies for Tomorrow ('CST'), published a SAF "pocket guide" entitled 'How to purchase SAF for corporate customers', alongside a call for action for companies to commit to purchase 30% SAF for their corporate travel by 2030. This 30% SAF by 2030 commitment can achieve meaningful results, such as the first 1% of a global 10% SAF target for 2030 that the CST has established, and which will require at least 300 SAF plants to be developed globally.

Incentivising SAF use through our landing charges

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

Offering passengers the opportunity to buy SAF

Through our offsetting partner CHOOOSE, we continue to offer companies and passengers the chance to buy SAF. As an alternative to the forestry projects offered on the platform, customers can select to offset their flights by paying for SAF which is used on existing scheduled flights, or a blend of the two. Once the transaction has occurred no other claim can be made for the carbon saved, helping to further stimulate SAF production. Heathrow was the first airport in the UK to offer passengers this opportunity which helps to raise awareness of the role that SAF can play in decarbonizing air travel.

PLANNING FOR ZERO EMISSION AIRCRAFT

In November, together with a consortium comprising manufacturers, universities, airports and a professional services company, Heathrow published the findings from a UK Research and Innovation funded project – called project NAPKIN – which established the UK domestic market potential for ZEF. It shows that given the right conditions, hydrogen fuelled services could dominate domestic air travel by 2040.

The next step is to research the short-haul market potential. 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 the regulatory settlement period which runs from 2022-26.

A major research programme by the Aerospace Technology Institute called 'Fly Zero' also reported in spring 2022. It helped to shape the work of the Jet Zero Council, where a "ZEF Delivery Group" was launched in 2022 to complement its focus on 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.

FROM NET ZERO PLAN TO DELIVERY

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 it. 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 our economic regulator, the CAA, who determine the regulatory settlement for that period.

Positive engagement with the CAA and airlines during 2022 supported the inclusion of £207 million (2020 CPI pricing) of investment in carbon and sustainability improvements in our business plan for the current regulatory settlement period (2022-2026). Subject to the final settlement, this allows 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 from aircraft 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. During 2022 we are trialling alternative approaches to the delivery of pre-conditioned air ('PCA') systems. 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 are investing in improvements to active travel (cycle and walking routes) and to public transport, to deliver more electric vehicle charging points, and starting 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 carbon footprint is essential. We scrutinise each project that forms part of the programme to explain the value of our plans and clearly set out the carbon benefits they deliver and how delivering our plans protects 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 is informed by the Greenhouse Gas Protocol ('GHGP') and the Airport Carbon Accreditation ('ACA') standards. Our carbon and energy disclosure is in line with the reporting requirements of the Streamlined Energy and Carbon Reporting ('SECR'). It includes emissions from fuel consumption and operational vehicles in scope 1, electricity consumption in scope 2, and aircraft emissions, business travel, travel to and from the airport and infrastructure in scope 3. In 2022 we have included 2019 as our baseline year. Reports will feature the baseline, the two previous years and the current year actuals.

Emissions from our supply chain are not within the scope of the carbon footprint calculation and verification process conducted by third parties but are added inhouse as a separate piece of work. Emissions are calculated based on capital spent multiplied with industry specific intensity factors and contribute to a holistic picture of Heathrow's scope 3 emissions. Our approach to measure supply chain emissions is currently under review with a plan to include into the footprint scope for 2023.

Regarding scope 3 emissions from aircraft, 2022 marked the year in which a regular supply of sustainable aviation fuel ('SAF') was delivered to Heathrow by airlines participating in our aeronautical charges incentive scheme. Over 22,000 tonnes of SAF were delivered, with lifecycle carbon savings of at least 70% based on estimates made by the UK industry coalition 'Sustainable Aviation'. We are currently working on incorporating carbon savings from use of SAF into future footprints.

In addition to the integration of supply chain carbon and SAF accounting we are continuously improving the quality of all data feeding into the footprint to provide more frequent, accurate and accessible carbon reporting.

We identified opportunities for enhanced data quality during the 2022 carbon footprinting process, For example, when working with our vehicle fuel supplier on automating the reporting of data, we were granted access to data from additional fuelling stations on Heathrow's premises which were previously not accessible. The data will affect our current and historic emissions from operational vehicle fuel and construction fuel and we have commissioned an independent review of data integrity and processes to ensure best practice is followed.

Following the publication of the Heathrow Net Zero Plan as part of a refreshed Heathrow 2.0 in February 2022, we have mapped its eight goals to cut carbon 'In the Air' and 'On the Ground' to the GHG protocol scopes. 'In the Air' emissions are entirely part of GHG scope 3 emissions which are responsible for more than 99% of Heathrow's carbon footprint. Emissions from operating aircraft alone represent approximately 95% of Heathrow's total emissions. Emissions 'On the Ground' account for the remaining 5%.

Bureau Veritas UK Limited has provided independent, limited assurance for Heathrow's greenhouse gas ('GHG') emissions data since 2020, covering the period from 1 January 2020 to 31 December 2022.

The published methodology document contains information on the context, scope, reporting period and boundaries, calculation and used emissions factors of the 2022 carbon footprint. This includes a list of all emissions by scope with detailed information on data sources and core assumptions used for calculation.

The 2022 Sustainability Report including the assurance statement and the carbon footprint methodology can be found on our website.

ENERGY EFFICIENCY

During 2022, we started to operate more of our estate as passenger numbers increased following the impact of COVID-19 on air travel. 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 installations.

Net Zero Plan	Emission source		Greenhouse gas emissions			
Objective	**GHGP**	**ACA**	**2019**	**2020**	**2021**	**2022**
Net zero on the ground	**SCOPE 1** (tonnes CO_2e)		**26,998**	**23,209**	**29,091**	**29,806**
	Company facilities	Fuel consumption utilities – Market based – Location based[1]	21,942 24,335 (134,288.9 MWh)	18,903 18,903 (162,578 MWh)	23,525 23,525 (125,326 MWh)	21,867 21,867 (268,499 MWh)
	Company vehicles	Operational vehicles	1,668 (6,732 MWh)	1,121 (4,597 MWh)	1,023 (5,324 MWh)	790.9 (4,867 MWh)
	Company facilities	LPG for fire training	35 (4.9 MWh)	– (0 MWh)	– (0 MWh)	– (0 MWh)
	Company facilities	Refrigerants	2,871	2,777	2,968	6,671
	Company facilities	De-icer	482	407	1,575	477
	SCOPE 2 (tonnes CO_2e)		-	-	-	-
	Purchased electricity, steam, heating and cooling for own use	Grid electricity consumption – Market based – Location based[1]	- 71,163 (283,229 MWh)	- 52,392 (224,722 MWh)	- 49,066 (231,082 MWh)	- 52,717 (272,610 MWh)
	SCOPE 1 and 2 carbon intensity (kg CO_2e/passenger)		**0.33**	**1.05**	**1.50**	**0.48**
	SCOPE 3 (tonnes CO_2e)		**20,782,751**	**8,845,890**	**8,125,487**	**14,734,239**
	Downstream transportation and distribution	Passenger Surface Access	632,348	195,040	130,699	361,856
	Employee commuting	Colleague Surface Access	115,531	66,428	78,537	89,034
	Business Travel	Business Travel	1,070	245	28	420
	Waste generated in operations	Waste	563	1,407	176	385
	Purchased goods and services	Water	2,068	980	434	482
	Use of sold products	De-icer	4,584	1,517	3,267	3,473
	Upstream transportation and distribution	Operational Vehicles & Equipment	33,015	18,075	12,204	15,768
		Construction Vehicle Fuels	-	771	1,299	1,122
	Downstream leased asset/use of sold products	Third party grid electricity consumption – Market based – Location based[1]	146 43,706	125 28,790	69 23,785	- 24,956
		Fuel Consumption - Utilities	272	266	173	155
Net zero in the air	Use of sold products	Aircraft in the landing and take-off cycle (LTO)	1,250,648	511,056	505,552	985,506
		Cruise Emissions from all departure flights	18,742,505	8,049,981	7,393,049	13,276,039
	SCOPE 3 carbon intensity (kg CO2e/passenger)		**256.89**	**400.27**	**418.84**	**239.19**
	SCOPE 1, 2 and 3 (excl. aircraft emissions) carbon intensity (kg CO2e/passenger)		**10.09**	**13.94**	**13.19**	**8.16**
Total (tonnes CO_2e)			**20,809,749**	**8,869,098**	**8,154,578**	**14,764,046**

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'). We align our reporting with the Greenhouse Gas Protocol, which provides accounting and reporting standards, as well as sector guidance from Airport Carbon Accreditation.

Scope 1 – All direct GHG emissions from activities at Heathrow Airport under our direct control, such as HAL's own vehicles, fuel required to heat our terminals and non-carbon emissions including refrigerant gases.

Scope 2 – All indirect GHG emissions from the electricity purchased for the organisation's owned and operated activities. Scope 2 market-based emissions for 2022 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. Therefore, carbon intensity metrics including scope 2 only include market-based 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, all of which fall under Scope 2 electricity.
- All scope 1 and 2 emissions are UK based.

Scope 3 – All other indirect GHG emissions from activities in relation to Heathrow Airport, occurring from sources that we do not own or 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.

Well-to-tank and Transmission & Distribution
- Well-to-tank ('WTT') emissions are "upstream" emissions related to the production and transportation of fuel to where it will be combusted. T&D are emissions from the transmission and distribution of energy to site. Although we track Well-to-Tank ('WTT') and T&D emissions, we do not currently include these within our reporting. The industry standards that we align to lack guidance on the inclusion of WTT emissions, including which aviation stakeholders should report these and how they relate to attributing the benefits of SAF. We will engage with industry bodies and Government in 2023 to determine how best to report these emissions.

Emission source (tonnes CO2e)	2019	2020	2021	2022
Scope 3 well-to-tank ('WTT') and transmission and distribution ('T&D')	4,362,098	1,864,309	1,717,522	3,103,182
Total including WTT and T&D	**25,171,847**	**10,733,407**	**9,872,100**	**17,867,227**

[1] Emissions for location-based 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.

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.

Through the Great Place to Live and Work pillar of Heathrow 2.0 we have set goals and targets to take action on the material sustainability issues that matter most to our stakeholders, and where we can have the greatest impact. The goals in this pillar are broad ranging – from limiting the number of people impacted by aircraft noise, to how Heathrow will give back to its local communities and how we will reflect local diversity at all levels of the business.

Since launching the refreshed strategy in February 2022, we have made good progress on putting in place the foundations that will be required for success by the end of the decade. As the airport has continued to build back, experiencing rapid growth since the start of the year, we have also faced challenges which we will continue to address in 2023 and beyond.

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 number of people 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.
- 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.

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.
- 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 will enable clear communication of priorities to strategic partners and a collaborative approach to working together to deliver.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2022

SUPPORTING SUSTAINABLE TRAVEL TO WORK

In January 2022 we delivered the first services as part of a new Sustainable Travel Zone ('STZ') to support sustainable colleague travel to work and provide better travel options to local communities. Additional services were added through the year. They include improved timetables on 14 local bus and coach routes, with a focus on services arriving at Heathrow before 04:00 and departing after 23:00, expansion of the offers available to colleagues at the Heathrow Cycle Hub, free travel for Heathrow colleagues on the Heathrow Express and free travel between Hatton Cross and Heathrow terminals on the Piccadilly line. A Way2Go virtual roadshow launched, along with a Cycle Hub pop-up for colleagues to find out more about sustainable commutes and benefit from bicycle servicing.

INCREASING CONFIDENCE IN PUBLIC TRANSPORT

We were encouraged to see the percentage of passengers using public transport increase steadily through the year to over 43% in September, before falling back slightly in the final quarter due to disruption to rail services. Although the average at the end of year is lower than our target for 2026, it indicates that passenger demand for public transport is continuing to return in line with recovery and is a positive step towards meeting our longer-term goals.

PERFORMANCE INDICATOR

Public transport mode share

Target by 2026	45%
2022	38%
2021	33%
2020	37%

NOISE STRATEGY

We have a long-established noise management strategy which has been articulated in our Noise Action Plans, a legal requirement since 2009. The process for the next round of action planning (Round 4 – Noise Action Plan 2024-2028) started in 2022 with the publication of strategic noise maps for 2021. Engagement with key stakeholders to develop a draft action plan will continue in the first half of 2023, ahead of public consultation in the summer, and an autumn submission for approval, by the Department for Environment, Food & Rural Affairs ('DEFRA'). Once the plan has been adopted by DEFRA, it will be published on the Heathrow website.

Work to influence research into the effects of aviation noise, including non-acoustic factors that impact perception of annoyance, resumed in 2022, with Heathrow's noise team contributing to two papers at the international 'Internoise' conference in Glasgow. We also commissioned research aimed at establishing robust evidence of the effectiveness of noise insulation schemes on mitigating the impacts of noise on children's learning and on levels of annoyance, sleep disturbance and quality of life for local residents. This will inform the strategic direction for Heathrow's new insulation and vortex schemes which will launch in 2023.

NOISE AT NIGHT

Fewer flights over the past two years resulted in a reduction in noise exposure for local communities and this was reflected in the annual noise contours[1] for 2021 which were published in 2022. Because of the disruption in 2020 and 2021, we compare performance each year against 2019, as the most recent year of typical operations. In 2022 there were a total of 465 late running departures against the target of no more than 177. A combination of resourcing issues, delays across Europe due to capacity, regulations, low visibility and de-icing requirements has impacted performance. We are disappointed with the performance in 2022, especially given the context of the significant progress made in the preceding years. We are committed to addressing these challenges and to minimising the impact of noise at night on communities that are overflown.

PERFORMANCE INDICATOR

Late running aircraft[2]

Target	177
2022	465
2021	86
2020	68

[1] Noise contour maps make it possible to identify how many people live in areas where there is significant annoyance from noise.
[2] Total number of late running non-dispensed departures from 23:30.

LAYING FOUNDATIONS ON NATURE AND WASTE

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

In 2023, we will also focus on developing Heathrow's zero waste airport strategy, to ensure we have a plan to make tangible progress this decade. In 2022, we completed work to inform our longer term plans, including a waste composition analysis to detect any significant changes to the waste stream as we recover from the pandemic, and the rolling out of improvements to waste infrastructure, ensuring that consistent colour coding is in place to support passengers and colleagues with more accurate segregation.

HEATHROW LOCAL RECOVERY PLAN

In April, we released an update to the Heathrow Local Recovery Plan. First published in 2020, the plan outlines how Heathrow will share the benefits of aviation's recovery with our neighbours through jobs, skills development and education. To build on achievements across the initial recommendations, the Heathrow Local Recovery Forum, chaired by Lord David Blunkett, has agreed nine new actions to increase employment levels, open up procurement opportunities and support the development of a local carbon offset market.

INVESTING IN HEATHROW'S LOCAL COMMUNITY

In January 2023, we published Heathrow's new Giving Back Programme which will collectively benefit at least one million local residents by 2030. Focusing on employability and nature and the local environment, the Giving Back Programme builds on our history of community investment over many years. In 2022, we continued to support local communities through the Heathrow Community Rangers, the Responsible Schools Programme, funding of local community projects via the Neighbouring Villages Fund, direct donations of equipment and food, and colleagues giving their time to volunteer.

Heathrow Community Rangers

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. In 2022, the Rangers delivered a range of projects, including improvements to Stanwell Moor Village Hall and the creation of new sensory gardens at Oriel Academy and Colnbrook Church of England Primary School.

Responsible Schools Programme

A refreshed programme of delivery as part of our Responsible Schools Programme launched in March. Our delivery partner, Business Education Events ('BEE'), led 20 sessions across our five partner primary schools, attended by 1,184 students. The sessions were a combination of an enterprise workshop, where students were challenged to create a product, plan a presentation and pitch for a sweet shop to be opened at Terminal 5, and career events to inspire local school children to raise their aspirations.

Neighbouring Villages Fund

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 acquire resources which communities can benefit from, now and in the future. We donated £41,767 in funding via the NVF in 2022, a proportion of which funded community events to bring people together for the Jubilee celebrations in June.

Colleague volunteering

With the lifting of COVID restrictions, we were able to resume colleague volunteering. 371 colleagues gave up their time to support a range of activities, including painting Stanwell Youth Club, stencilling the adobe building at Pippins Primary School, planting and weeding St Thomas Church, maintaining outdoor spaces across Harmondsworth, Stanwell, Colnbrook, Slough and Cranford and supporting enterprise and careers events through the Responsible Schools Programme.

Donations

Heathrow recently upgraded all its defibrillators, leaving a surplus of working units of the previous model. These have been donated to a range of charities, community groups and small businesses in the boroughs surrounding the airport. We also donated 18,500 pairs of goggles to schools to use in Science and Design and Technology lessons. These were excess PPE unused during the pandemic.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2022 (CONTINUED)

GIVING BACK TO LOCAL COMMUNITIES THROUGH OUR PARTNERSHIP WITH HEATHROW COMMUNITY TRUST

Activity in 2022 continued to focus 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 2022 we contributed £543,000 (2021: £315,532). We donated £275,000 (2021: £125,000) and a further £270,000 (2021: £5,604) was leveraged[1] from colleague and passenger fundraising and levied from noise fines. HCT was able to distribute grants worth £187,000 in 2022 to 69 local community groups and organisations, involving 272 schools and 1,013 businesses.

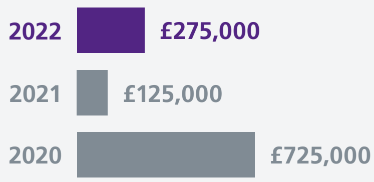
For the first time since 2019, Heathrow hosted its sixth Midnight Marathon event in October. The event provides colleagues from across the airport community with a unique opportunity to run the full length of Heathrow's northern runway at midnight to raise money for charity. More than 300 colleagues took part, raising over £22,000 for HCT.

In 2022 HCT supported a wide range of community projects and organisations, helping young people to raise their aspirations, bring communities together and enhance local environments. For example, in 2022, Heathrow Community Trust awarded Power2 £4,419 to support their Teens and Toddlers programme delivery in Ealing. This 16-week project supports disadvantaged young people to mentor toddlers in a local nursery alongside classroom sessions with Power2 staff. Eleven young people completed the programme and teachers spoke of the increases in their confidence, as well as improved school attendance.

The remaining funding will enable HCT to facilitate seven grant rounds in 2023.

PERFORMANCE INDICATOR

Heathrow donation to Heathrow Community Trust



SUSTAINABLE SUPPLY CHAIN

Balanced Scorecard

During 2022, we focused on developing a Procurement Balanced Scorecard which helps convey the strategic aims of the business to Heathrow's Tier 1 supply chain. It focuses on five pillars: carbon reduction, social value inclusive of accessibility, inclusion and diversity, opportunities for local business, innovative solutions and behaviours. The Scorecard has been launched and we are continuing to collect baseline data which will be used to agree improvement targets.

Business opportunities at Heathrow

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

London Living Wage extension

In February, we announced an extension of the London Living Wage. Heathrow already pays at least this rate to directly employed colleagues, and this latest development ensures everyone working in Heathrow's direct supply chain is guaranteed to earn at least the London Living Wage from the start of April 2022. At least 1,300 colleagues at the airport have benefitted from the wage increase, with over £4.5 million extra now in the pay of people at direct suppliers including Mitie and Apcoa.

Heathrow's value to Britain

In September, we published 'Heathrow: Sustainable Growth, Global Connectivity'. The report outlines research by Frontier Economics that found that the value of the aviation sector to the British Economy totalled £12 billion in 2021. More than £153 billion of non-EU exports and imports travelled through Heathrow in 2021, while in 2019 passengers went on to spend £400 million in towns and cities across the UK. These findings underline the importance of the global hub airport model to the UK's economic growth and to Britain's exporters who rely on aviation trade routes. Heathrow's global connectivity to the world's growth markets supports the economies of Scotland, Wales, Northern Ireland and all the English regions.

[1] Leverage is a measure of additional resources contributed to charities from sources other than the company.
[2] Ratio (stated as a percentage) of female identified gender employees against all employees of Heathrow Airport Limited on the last day of the calendar year. Gender is a required piece of information upon employment and is a field within our dedicated HR system. This includes all temporary or fixed term workers on active payroll and anyone on any leave reason. This excludes anyone identified as a Non-Worker, a Pending Worker (someone who has an HR record, but has not commenced employment at point of data extraction) or those identified as Contingent Workers who have no pay grade data.
[3] Ratio (stated as a percentage) of ethnicity representation of employees against all employees of Heathrow Airport Limited on the last day of the calendar year. Ethnicity data disclosed upon employment and is a field within our dedicated HR system. This includes all temporary or fixed term workers on active payroll and anyone on any leave reason. This excludes anyone identified as a Non-Worker, a Pending Worker (someone who has an HR record, but has not commenced employment at point of data extraction) or those identified as Contingent Workers who have no pay grade data.

EQUALITY, DIVERSITY AND INCLUSION ('ED&I')

ED&I remained a key area of focus in 2022 and we were delighted to be awarded Diversity Leader status by the Financial Times and to be shortlisted at the National Diversity Awards. The scale of recruitment and internal mobility at Heathrow in 2022 is reflected in a positive upward trend for both female and ethnicity representation contributing to our goal to be reflective of our local communities at all levels of the business by 2030. In 2022, we introduced a question to our regular colleague survey that focuses on how inclusive colleagues feel Heathrow is. This provides vital insight to informing our plans for the future as we look to build a truly inclusive culture.

In February, we launched the Heathrow Mentoring Platform. Building on the success of a pilot scheme in 2021, the online platform facilitates mentoring for colleagues by supporting them to find, build and develop mentoring relationships and providing guidance for both mentors and mentees. In September we marked National Inclusion Week by hosting an event to bring together colleagues from many airport business to share ideas and align future plans.

Our colleague networks continued to thrive in 2022, delivering a range of events and initiatives, for example:

- The Altitude gender equality network produced Menopause Guidance detailing support available for colleagues to help them manage perimenopause and menopause symptoms, both at work and home.
- The en-haNCE culture and ethnicity network participated in anti-racism charity Show Racism the Red Card's Wear Red Day with colleagues across the airport wearing something red and Heathrow's terminals lit up in red lights.
- The HAND disability network hosted the Training2Care Virtual Dementia Tour and Autism Reality Experience, enabling attendees to experience the airport through the eyes of individuals with Dementia or Autism.
- The Proud network marked LGBTQ+ History Month by collaborating with Heathrow's other network to explore intersectionality, supporting colleagues to better understand themselves and those around them.

PERFORMANCE INDICATORS:

Goals	Targets (by 2030)		Performance 2022	2021
Reflect the diversity of the local community at every level for female colleagues	**49%** Female representation at each level[2]	Senior managers	**39.5%**	**37.1%**
		All colleagues	**41.3%**	**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[3]	Senior managers	**18.3%**	**17.1%**
		All colleagues	**48.1%**	**46.0%**
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	**99.9%**	**99.8%**
		Disability	**37.8%**	**21.7%**
		Ethnicity	**96.9%**	**97.7%**
		Sexual orientation	**43.7%**	**26.0%**

EDUCATION, EMPLOYMENT AND SKILLS

Heathrow has delivered and supported over 2,500 employment opportunities in 2022. This is a combination of 1,107 trained security officers, 598 non-security external hires and 803 jobseekers receiving employment offers across a range of airport employers, supported by the Heathrow Academy. These opportunities represent significant achievement towards our longer-term goal of 10,000 opportunities and have been driven by the recovery of the aviation sector, and the corresponding high levels of recruitment.

The Heathrow World of Work programme delivered 2,731 experience of work days to local young people aged 16-19, with an additional 300 experience of work days delivered to primary school children as part of the Heathrow Young Explorers activity. The majority of the experience of workdays were delivered through our Virtual Work Experience programme with local schools and colleges, which was completed by 1,435 local 16-19 year olds (2,391 experience of work days). The remainder were delivered through activities such as T-Level work placements and Essential Skills Masterclasses for local college students with additional learning needs.

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.

Fifteen new passenger airlines started operating at Heathrow temporarily 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. Whilst six airlines managed to secure more permanent slots, the lack of capacity available at Heathrow has meant that many of these new entrants are unable to continue, meaning some important routes including four Indian cities become unserved again. As the UK's largest port by value, over the course of the last three years we have better understood the critical role of air cargo, the majority of which is carried in the hold of passenger aircraft at Heathrow, in supporting UK exports, manufacturing and business supply chains. To do this, in partnership with our cargo community, we have developed a cargo strategy to grow Heathrow's cargo proposition safely, securely, sustainably, and efficiently, meeting the practical needs of UK businesses. The pandemic has shown the risk to the UK's trade routes of becoming dependent on hubs in EU countries which closed their borders to flights from the UK during the pandemic. Although demand has fallen temporarily, it is forecast to have surpassed pre-pandemic levels before a new runway would be operational.

CONNECTING ALL OF THE UK TO GLOBAL GROWTH

Expanding Heathrow will add more long-haul and short-haul routes to help drive direct investment and tourism across the UK, 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. For businesses, the additional cargo capacity afforded by new routes will enable new trading opportunities. 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. Anything high value, time critical or with a short shelf life goes on an aircraft. Long haul passenger flights from Heathrow carry 40% of the UK's non-EU exports.

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. Without 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. On 26 May 2022, the Department for Transport published a policy paper, 'Flightpath to the future: a strategic framework for the aviation sector', in which it reaffirmed that the ANPS continues to have full effect and that the UK Government remains supportive of airport expansion where it can be delivered within environmental obligations. This was reiterated with the publication of the Jet Zero Strategy on 19 July 2022 where the ANPS was again stated as having "full effect".

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 approach 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, publishing its Jet Zero Strategy in July 2022. The commitments it sets out, including to accelerate the use of sustainable aviation fuel ('SAF') and new technology, support the incorporation of its 'Widespread Innovation' scenario in our long-term forecast.

In our continued modelling and looking at climate projections, we assessed they show that due to expected innovation and technological change (SAF, zero carbon aircrafts and fleet efficiency improvements), passenger demand will remain sufficient to support the need for a third runway. There are opposing models with fewer passenger numbers such as the Balanced Net Zero scenario ('BNZ'). The level of SAF in the Widespread Innovation pathway is more aligned with policy and emerging legislation, whereas the, BNZ assumes a lower level of SAF uptake which is not in line with current external expectations. 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. Please see page 34 for our net zero aviation section.

As at 31 December 2022, £516 million of Expansion-related assets in the course of construction, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission, and £16 million of allocated capitalised interest are recognised on the balance sheet. Refer to page 158 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 continue to consider that 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 the UK, 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 UK to global growth markets, 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

"2022 has been Heathrow's fastest year of growth in our history, with an increase in revenues of 140% to £2.9 billion. We invested well ahead of the recovery to ensure we could take advantage of this significant increase in demand, with EBITDA increasing by 339% to £1.7 billion.

We spent £442 million on capital expenditure through the year to support our future recovery. Liquidity has remained strong throughout, and we continue to have support from the global capital markets which allowed us to complete £1.9bn of financing through new issuances and refinancing of credit facilities. Supported by a strong balance sheet, we are ready to continue growing sustainably."

JAVIER ECHAVE
Chief Financial Officer

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

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 profit/(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 with the absence of material uncertainty. The Group's Q3 Press Release published on 26 October 2022 was prepared on a basis of going concern with material uncertainty. Since then, over the fourth quarter, the Group has experienced strong passenger number growth. This growth provided significantly increased confidence over covenant compliance in future periods. We have a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. More detail can be found in the going concern statement on page 141.

Management uses Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. These remain consistent with those included and defined in the Annual Report and Financial Statements for the year ended 31 December 2021. A reconciliation of our APMs has been included on page 223.

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

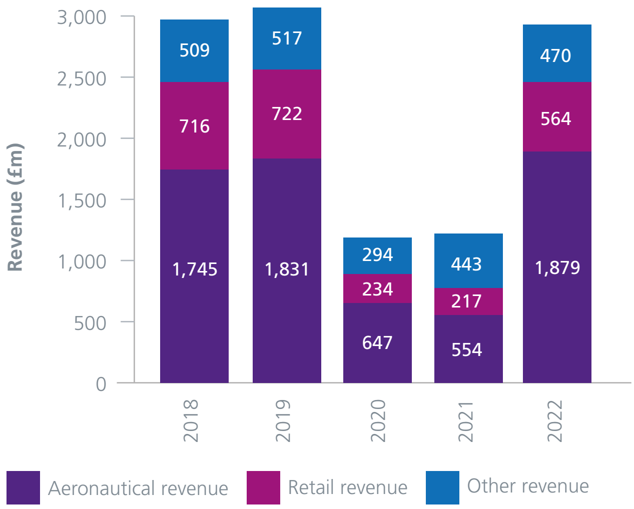
For the year ended 31 December 2022, the Group's revenue increased by 140.0% to £2,913 million (2021: £1,214 million). Adjusted EBITDA increased 338.5% to £1,684 million (2021: £384 million). The Group recorded a £114 million profit after tax (2021: £1,613 million loss).

REVENUE

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

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

Aeronautical revenue increased by 239.2%. This is predominantly due to the recovery of passenger traffic following the easing of COVID-19 restrictions and an increase in aero charges. Our maximum allowable yield for 2022 was £30.19 per passenger (2021: £19.36), as per the holding price cap set by the CAA for 2022.



RETAIL REVENUE

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

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

OTHER REVENUE

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

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

ADJUSTED OPERATING COSTS

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

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

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

OPERATING PROFIT/(LOSS) AND ADJUSTED EBITDA

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

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

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

[1] Please see exceptional items section for further information

EXCEPTIONAL ITEMS

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

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

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

PROFIT/(LOSS) AFTER TAX

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

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

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

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

TAXATION

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

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

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

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

CASH POSITION

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

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

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

CASH GENERATED FROM OPERATIONS

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

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

[1] The overall movement in working capital of £218 million in 2021 is primarily driven by the unwind of prepayments made in 2020 offset by an increase in trade debtors.

CAPITAL EXPENDITURE

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

We have invested £365 million on various programmes to ensure the airport's safety and resilience. Investment has focused on main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained, airport apron development (Kilo taxiway area), back-office systems upgrades and renewal of assets that have come to the end of their economic life.

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

RESTRICTED PAYMENTS

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

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

RECENT FINANCING ACTIVITY

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

Class A financing activities included:

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

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

FINANCING POSITION

DEBT AND LIQUIDITY

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

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

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

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

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

FINANCIAL RATIOS

At 31 December 2022, Heathrow SP and Heathrow Finance continue to operate within the required financial ratios from the common terms agreement. Heathrow Finance's gearing ratio has now returned below pre-pandemic levels. Gearing ratios 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 2022, Heathrow's RAB was £19,182 million (31 December 2021: £17,474 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 64.9% and 76.0% respectively (31 December 2021: 64.6% and 76.3% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 82.3% (31 December 2021: 88.4%) with a covenant of 92.5%.

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

CLIMATE CHANGE

Climate change will have a significant impact on the aviation industry and Heathrow in the years to come and we have both a moral responsibility to continue to be ambitious in our endeavours to take carbon out of flying, as well as a responsibility to minimise risk to the business in the long-term. As part of our work over Taskforce for Climate Related Financial Disclosures ('TCFD') as described on pages 68 to 77, we have considered our transition risks and ensured that are factored fully and consistently into our future financial long-term forecasts for those areas of the balance sheet whose recoverability is assessed based on expected future cash flows, including property, plant and equipment, expansion assets in the course of construction, intangible assets, investment properties and deferred tax assets. In addition, we have ensured that the useful economic lives of our existing assets are appropriate, particularly with regard to the physical risks identified in TCFD as well as with regard to our recently published net zero sustainability strategy as described on pages 34 to 37.

PENSION SCHEME

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

JAVIER ECHAVE
Chief Financial Officer

22 February 2023

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.

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 the Annual Report and Financial Statements, the 2023 certificate has not been issued.

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 £13 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, December 2021 and December 2022, 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

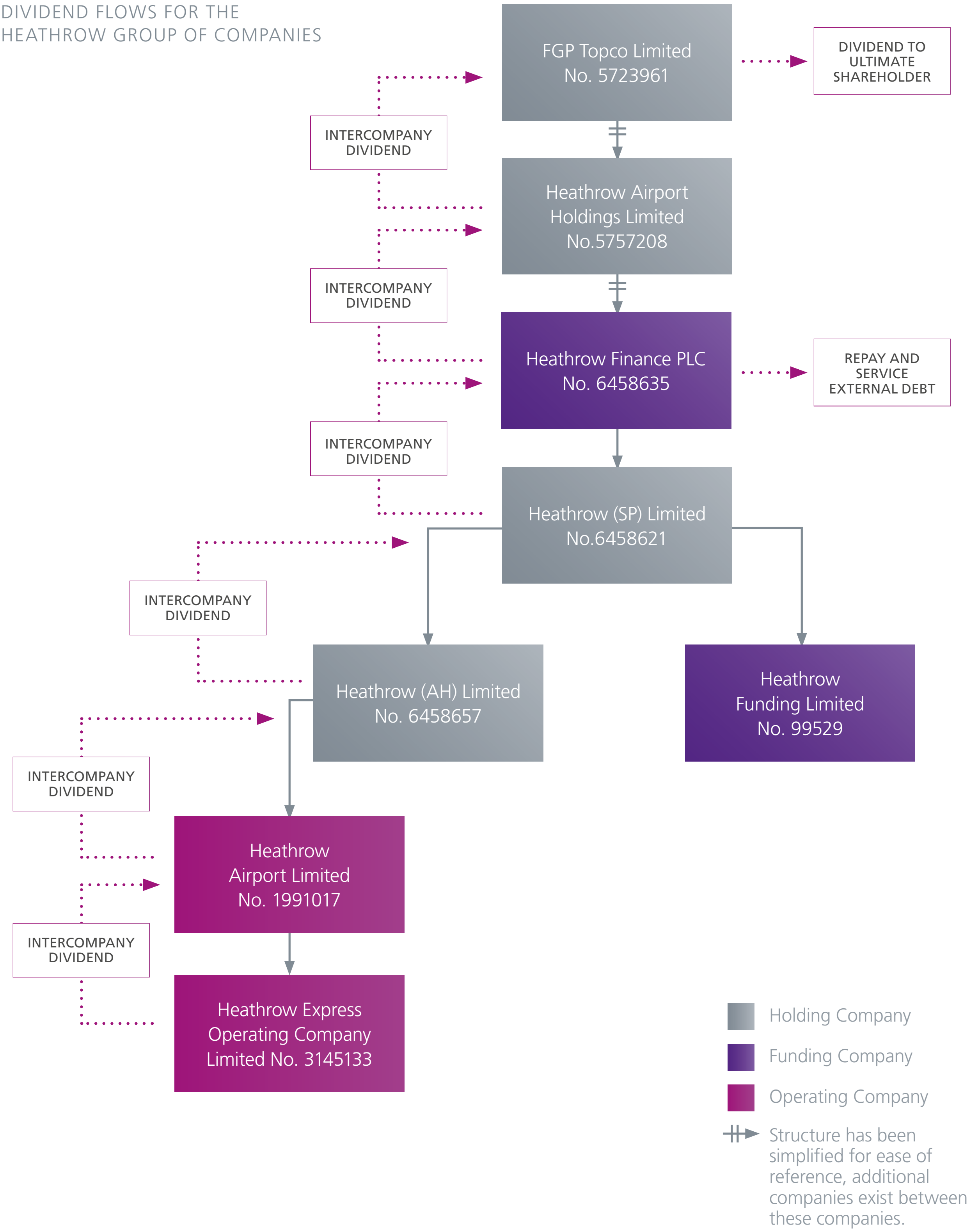
To access equity investment, we are required to offer a fair return to shareholders. Where we have met our balance sheet requirements and have concluded we have suitable capital to meet our investment plans, the Directors seek to provide shareholders with a fair return through a dividend payment while 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 2022 no dividends were paid to Heathrow Finance Plc (2021: nil).

DIVIDEND FLOWS FOR THE
HEATHROW GROUP OF COMPANIES



OUR APPROACH TO TAXATION

We have a corporate responsibility to collect and pay the right amount of 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 2022 was £154 million (2021: £150 million). The contribution for taxes borne was made up of a range of UK taxes as illustrated below.

TAX STRATEGY

Heathrow's tax strategy was approved by the Audit Committee on behalf of the HAHL Board[1] in July 2022 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 paying 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 engaging with HMRC in an open and transparent manner.

CASH TAX CONTRIBUTION BY TYPE

The Group also collected taxes of £69 million (2021: £58 million) and paid these over to HMRC, such as PAYE on employee salaries.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 86.
[2] The Group received a £5m corporation tax refund from HMRC in the year (2021: £3m refund).

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. The tax team is adequately staffed with clearly defined roles and each individual has the required skills and support to carry out their role effectively. Regular training is provided to ensure the team is capable of managing 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 our 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 we have 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 current, upcoming and emerging risks.

The framework provides guidance on how risks should be identified, mitigated, reviewed and reported within Heathrow. During 2022, 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 and management. 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.

The risk landscape for Heathrow has remained challenging, as government covid restrictions eased and passengers started to return to the airport. The increase in demand has challenged capacity across the whole ecosystem at Heathrow – airport, airlines, handlers and other partners. Capacity issues have largely been driven by resourcing concerns across Team Heathrow, which are further exacerbated by a challenging macro-economic environment and tight labour market. The pandemic has continued to have a material impact on our operations and financial performance, and management continue to focus on recovery, working closely with our partners and airlines. Safety risks, relating to passengers and colleagues across Team Heathrow, continue to be at the heart of our recovery; the significant financial loss due to the material loss of passenger numbers compared to pre-pandemic levels; risks relating to liquidity and our ability to access finance; resource attraction and retention, and operational risks from an increased exposure to cyber-attack all remain critical features of Heathrow's risk landscape.

We have continued to work with our partners, suppliers and customers throughout 2022 to respond to these risks. During 2022 Heathrow has continued to face significant regulatory risk as we wait for the CAA's final H7 determination.

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. Significant geopolitical risk has also characterised the risk landscape over the last 12-months, with the war in Ukraine restricting airspace, and impacting airline routes, as well as exacerbating existing global economic challenges linked to rising energy prices, high inflation and weak global and UK economic growth. There is a risk that these economic headwinds dampen passenger confidence and disposable income as the sector continues to recover. The risk of climate change continues to be the most significant risk facing both Heathrow and the global aviation sector over the longer term. 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 34). November's global agreement at ICAO for net zero aviation by 2050 is a landmark milestone on this journey. Government policy support for expansion remains in place and we continue to promote the case for an expanded Heathrow, supporting the UK's economic growth and levelling-up ambitions, while managing the risks and uncertainties within a rapidly changing risk environment post-pandemic.

MINE HIFZI
General Counsel and
Company Secretary

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 86.

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.

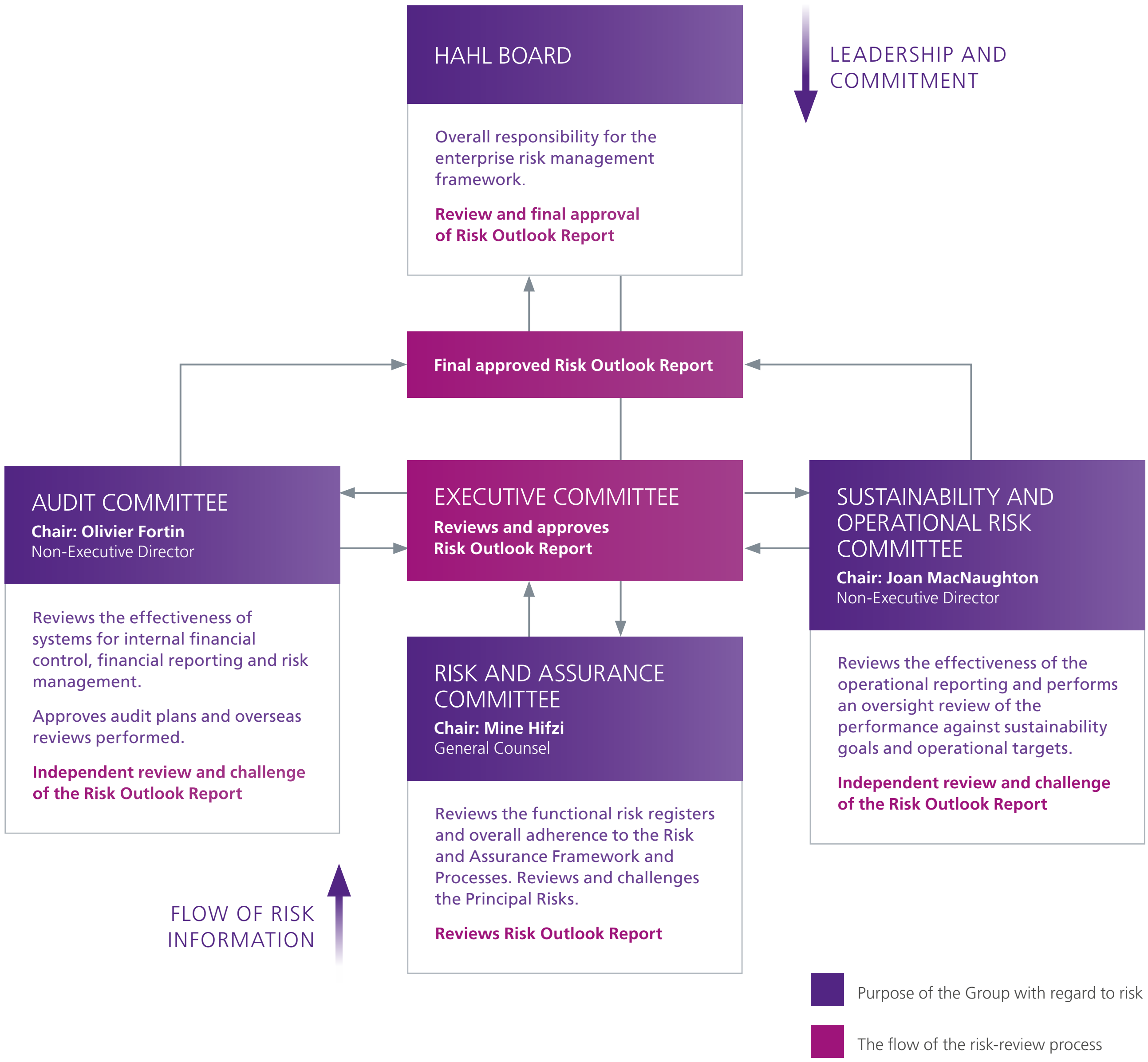
To this extent, risks that are emerging or that could cause critical harm to the business are subject to enhanced executive oversight.

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 2022. 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

An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks and with the pace and rate of our growth as we build back capacity these risks increase. Nationally, COVID-19 has resulted in a worsening of physical and mental health and external pressures including the war in Ukraine and cost of living crisis are adding to people's anxiety.

If we do not set and strive for the highest standards of fire, safety, health and wellbeing, we risk causing harm to our colleagues and stakeholders, compromising our service to passengers, and damaging our reputation and ultimately our business performance.

We therefore value, above all else, the health and safety of colleagues, passengers and anyone else affected by the airport's activities. Our focus on health and safety is not just the right thing to do, it is the foundation of an efficient operation, a secure airport and a sustainable business.

The UK security threat level is substantial, meaning an attack is likely. 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 risk mitigation strategy is built from our fire, safety, health and wellbeing framework of safe and healthy 'place', 'work', 'team' and 'decisions'.

Place: We ensure our physical environment and assets are designed, built, used, and maintained so that they don't cause harm. Our change control processes are designed to ensure that new equipment, technology, and processes are introduced safely.

Work: Our, fire, health and safety management systems are designed to ensure a planned and controlled way of working. We set Fire Health and Safety ('FHS') standards for the airport community and influence industry standards working with UK and international regulators and industry bodies. Our risk assessment processes adopt the hierarchy of controls and we set FHS standards for the airport community. Governance and assurance processes are used to ensure that controls around health-and-safety risks remain effective, and continuous improvement is encouraged.

Team: Consultation, engagement and collaboration are key to a safe and healthy team. We work closely with our Trade Union partners on health and safety matters and engage colleague views through our engagement surveys. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles. We collaborate across Team Heathrow through a range of mechanisms, including the Team Heathrow Safety Council and Network, to drive standards and performance. We held our first Heathrow Airport Safety Summit with Team Heathrow in June 2022 and started to measure safety culture across organisations operating at the airport.

Decisions: In the last 12 months our focus has been on 'healthy minds' to ensure safe and healthy decision making. Our extensive range of health and wellbeing products and services has been further promoted this year resulting in increased utilisation, supplemented by the provision of mental fitness training for line managers and support for financial wellbeing. Over 60% of Line Managers within our Security Function have received mental fitness training, providing practical tools so that line managers prioritise their own mental fitness and develop confidence in holding wellbeing conversations and signposting colleagues to appropriate support. Support for financial wellbeing includes practical support and access to one-to-one financial coaching.

We also have a confidential reporting line through which concerns of wrongdoing at work can be reported (Safecall).

We work with law enforcement and 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 the Civil Aviation Authority ('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

Heathrow is a Critical National Infrastructure ('CNI') and therefore complies with The CAA "Cyber Security Oversight Process for Aviation" (CAP 1753) based on the National Cyber Security Centre's "Cyber Assessment Framework" and in turn is broadly aligned to the NIST Cyber Security Framework. The Regulator (CAA/DfT) requires that Heathrow achieve compliance with CAP1753, through the CAA ASSURE audit process.

Heathrow has top-down support for Cyber Security. It is an active topic at the Executive Committee and briefings are provided as required or requested. Regular reporting is also performed through reports at Executive/Board/Non-Executive risk committees. Cyber risk assessment is performed at a system, supplier, and departmental level, and rolled up into overall corporate risk management processes. Mandatory Cyber and Data Privacy training is rolled out to colleagues annually. Monthly Phishing awareness campaigns are run and tracked. Execution of Business Continuity Plans is managed through the Heathrow Resilience "Command and Control" process. We work with Strategic Security in partnership with governing bodies as part of our CNI status.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN

TRANSFORM CUSTOMER SERVICE

PRINCIPAL RISK:

Regulation requirements

STABLE 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.

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.

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 set out its final Proposals in late June 2022. These updated its forecasts for operating costs, capital investment, commercial revenues, traffic and Weighted Average Cost of Capital ('WACC') together with more details in respect of the regulatory framework to be applied for H7. Although the gap in operating costs, capital investment, commercial revenues, and traffic was significantly reduced it remained substantial. In addition, the CAA lowered their estimate of WACC and did not increase the amount allowed for the COVID-19 related RAB adjustment. We submitted our response to the CAA's Final Proposals in August setting out numerous errors in their approach.

The CAA is due to publish its Final Determination in March. It is unlikely that the RAB adjustment will be increased, and the H7 settlement remains uncertain at this stage. There is a material risk for both that, in line with the CAA's previous approach, it could fail to act on established regulatory principles or implement best practice to ensure that the price control is a 'fair bet'. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority. We have begun preparations to ready an appeal so that one can be mounted if required, working with Legal and economic advisors.

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’)

STABLE – RISK / IMPACT

PRINCIPAL RISK

In June 2018 Parliament approved the Airports National Policy Statement (‘ANPS’) which sets out the policy framework for expansion at Heathrow Airport and is the primary basis for decision making on any development consent application for a new north-west runway. Heathrow was making considerable progress towards developing its Development Consent Order (‘DCO’) application to deliver a sustainable, affordable and financeable expanded Heathrow, including holding multiple consultations to seek feedback on its proposals. However, on 27 February 2020, the Court of Appeal concluded that the UK Government was required but had failed to take into account the Paris Climate Agreement when preparing the ANPS. The Court declared that the ANPS had no legal effect unless and until the UK Government carried out a review of the policy. Heathrow appealed against this decision and in December 2020, the Supreme Court unanimously held that the UK Government had acted lawfully when making the ANPS, overturning the Court of Appeal’s decision. The judgment confirmed that the UK Government had properly exercised its discretion and had taken into account the Paris Climate agreement by having regard to the Climate Change Act 2008 in the ANPS. On 6 September 2021, the Secretary of State for Transport decided that it was not appropriate to review the ANPS at this time. Further confirmation of the status of the ANPS has been made through the May 2022 publication of ‘Flightpath to the Future’ and the July 2022 publication of ‘Jet Zero Strategy’. While work to expand Heathrow during COVID-19 was paused, the post pandemic period has shown the demand from airlines to fly from Heathrow, as well as how critical Heathrow is for the UK’s trade routes. The Government’s ANPS continues to provide policy support for Heathrow’s plans for a third runway and the related infrastructure required to support an expanded airport and we are reviewing our options.

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

STABLE – RISK / IMPACT

PRINCIPAL RISK

Operational ecosystem challenges impacting capacity rebuilding and revenue growth.

COVID-19 has led to an unprecedented reduction in passenger volumes and revenues, which the industry was forced to respond to with workforce reductions and temporary closure of two terminals to weather the pandemic. The lack of targeted industry support and unstable travel policies (quarantines, testing requirements) by the government exacerbated the industry’s ability to plan for recovery. Brexit has impacted on worker availability, particularly in relation to ground handling staff.

Continued policy inconsistency on VAT Free shopping provides significant revenue uncertainty and lack of competitive parity with EU airports. The Next Generation Security Project is expected to have a negative impact on aviation capacity and retail revenue from 2023 onwards.

Significant potential revenue impacts are expected relating to workforce challenges requiring capacity restrictions and removal of VAT Free shopping.

Revenue growth may be inhibited by the lack of certainty over consumer demand recovery in 2023-2024, driven by high inflation, a slowdown in economic growth, impact of a recession and pressure on consumer spending. A limited capacity for growth dependent on slot trading combined with the highest aviation taxes in Europe (‘APD’) continue to put pressure on airports and hub airlines.

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 Winter 22, Summer 23 and for the future, with advocacy plan also in place to influence Department for Transport, Airport Council International (‘ACI’) (World and Europe), International Air Transport Association (‘IATA’) and other stakeholders to align to Heathrow’s position.
2. 2022 – 2026 Network Strategy in place to target new routes, grow market share and competition in key markets and protect weaker performing routes.
3. Senior engagement and account plans in place with key airlines to rebuild relations and accelerate collaboration, post COVID-19.
4. 2022 – 2026 Aviation Strategy in place to optimise revenues generated from Aviation with the goal of delivering sustainable growth, increased hub connectivity both globally and domestically and diversifying revenue.
5. Worked with Airport Coordination Limited (‘ACL’) and Ops Planning on pre-season schedule optimisation to maximise capacity where resources are limited.
6. Industry monitoring via daily updates from CAPA (market intelligence for the aviation and travel industry), media cuts and other industry events, as well as attendance at Routes (network) and IATA (slots and cargo) conferences.
7. Close alignment internally with Space, Retail and Property teams to optimise commercial opportunities while maintaining alignment with Security Project.

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 to maximise overall retail revenue.
2. Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deal 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 the Treasury (HMT) around the impact and pitching an alternative solution for the reintroduction of VAT free shopping for departing passengers and the opportunity to introduce duty free shopping for arriving passengers.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE · SUSTAINABLE GROWTH

PRINCIPAL RISK:

Liquidity and ability to access finance

INCREASED 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 Business Planning and Treasury 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.

LINK TO STRATEGIC PRIORITIES

MOJO BEAT THE PLAN SUSTAINABLE GROWTH

PRINCIPAL RISK:

Resilience of Team Heathrow

STABLE RISK / IMPACT

PRINCIPAL RISK

The COVID-19 pandemic has had a significant impact on the aviation industry, as well as on the wider eco-system of key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that the level of passengers and Air Traffic Movement growth exposes the gaps in operational resilience across the wider Team Heathrow, impacting on our collective ability to provide the safety, resilience, service levels and passenger experience our passengers expect.

Following the removal of government restrictions, both in the UK and globally, Heathrow and the wider aviation sector has experienced a rapid increase in passenger demand. Airports, including Heathrow, and their partners and suppliers, have experienced significant challenges in ensuring sufficient resources are available to support rapidly increasing demand, placing particular challenges on key parts of the passenger journey at peak times – security, airline ground-handling and immigration.

RISK MITIGATION STRATEGY

We continue to monitor and build on our operational insight and data to ensure we have capacity and resource ready ahead of demand with planned responses. We have developed a build back capacity programme led by our Chief Solutions Officer to specifically address pain points and risk areas around resilience. This programme reviews resourcing capacity across Heathrow's ecosystem and measures short and medium term forecasting to enable capacity planning. We work closely with our stakeholders and airlines undertaking regular reviews via the capacity sub-group. This includes seasonal peaks and flying schedules.

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). 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. 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 growth and associated workload, cost of living and the challenging external resourcing market. Recruitment demand remains high with vacancies in the UK at over 1.2 million (Oct 2022). Labour market supply is low, combined with economic inactivity being at the highest level in at least 30 years (2.49 million – Oct 2022).

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 October 2021 we launched our new cloud financial and people ERP system to enable working in a simpler, more agile and cost-effective way. Moving to a cloud-based system enables us to receive quarterly upgrades 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. In September 2022, we launched our new leadership development programme. It has been designed to help leaders address the needs of our colleagues in light of the changing landscape; and enable them to better understand the impact of their leadership style. 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. Political stability has become more uncertain with any change in either the current Prime Minister and Cabinet or a new Government having the potential to impact the environment in which Heathrow operates.

RISK MITIGATION STRATEGY

We continue to make a strong case for our place in the wider economy and the part we play in a successful 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 and their 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 changing Government policy.

LINK TO STRATEGIC PRIORITIES

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE

PRINCIPAL RISK:

Competition

STABLE 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 disrupted aviation and lower passenger numbers means that rival airports have more capacity and therefore greater potential to compete with Heathrow. In addition, Heathrow's charges increased significantly in 2022, potentially reducing our competitive advantage compared to other airports in the London system and our European Hub competitors. Heathrow will need to continue to deliver great value to our airlines in order to retain them at these higher charges.

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 and build back capacity so that we can deliver the throughput and service levels that we did before COVID-19. Maintaining commercial strategies that enable us to deliver great value to airlines and consumers is key to improving competitiveness and retaining 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 demonstrate real progress towards achieving the sector's net zero goal in this decade. Heathrow has implemented the Task Force for Climate related Financial Disclosures ('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 deliver 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 68.

RISK MITIGATION STRATEGY

Policy and global alignment to transition the aviation sector to net zero carbon emissions by 2050. We have been working with relevant aviation stakeholders to promote policies to scale up sustainable aviation fuel ('SAF'), to increase aircraft efficiency, and to support the development of zero emissions aircraft. More details can be found on pages 36-37.

In November 2022, ICAO, the International Civil Aviation Organisation, formed by 193 member states, committed to net zero carbon emissions for international civil aviation by 2050. The building blocks of this commitment were the development of the required technical feasibility assessment combined with a robust consensus-driven approach for a global framework led by some member states, particularly the UK that developed an international aviation coalition climate ambition during its COP26 presidency. In 2021, the entire aviation industry had already committed to net zero carbon emissions by 2050, including IATA, the international industry airline body. Heathrow has committed to net zero carbon and, in February 2022, published our Net Zero Plan which guides our approach to decarbonisation. Our plan is aligned to the broader UK 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. We have established net zero as a strategic programme in our H7 regulatory settlement period which ends in 2026. The programme, which includes over £200m of capital investment, will deliver the carbon emissions reductions we included in our plan, during this period. 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')

Tackling climate change is one of our strategic priorities. We continue to develop our understanding of the long-term risks to our business from climate change, whilst taking action on reducing our carbon emissions today, by investing in the solutions that will deliver our net zero goals. Whilst our focus is on accelerating the decarbonisation of the airport and working with our sector to deliver net zero aviation (pages 36-37), we are also preparing our airport for the effects 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 more 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.

Heathrow is an active member of the Accounting for Sustainability Project ('A4S') and we have adopted the A4S TCFD maturity criteria to guide, assess and benchmark our progress in implementing the TCFD recommendations 2021. Our membership supports us on our journey to build climate and sustainability into our financial decision-making, by identifying leading practice and providing opportunities to connect and collaborate.

In 2022, we have focused our efforts on reviewing the scenario analysis that underpins our assessment of climate risk. The assessment of policy and market risks facing our business now considers 45 independent published net zero scenarios - up from 30 last year - to provide further confidence in our judgements on financial materiality and possible impacts. We also commenced development of our own Heathrow scenario in 2022 to better understand the impacts of policy and market risks on our airport and this will inform our future disclosures.

Our long-term climate change scenarios are fed into our assessment of balance sheet recoverability in the financial statements (refer to page 145 in the Group's Accounting policies for further detail).

We are funding a research fellow as part of a 3-year partnership with the University of Cambridge Institute of Sustainable Leadership ('CISL'). The research is exploring the interrelationships between transition and physical risks and the findings will help us and the wider aviation sector to improve assessment and understanding of climate risk. We continue to promote sustainable finance more broadly. Our defined benefit pension scheme trustee maintains an investment policy prioritising sustainable investment, and we intend to link the margin of our revolving credit facilities to ESG performance measures. 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.	Our commitment to sustainable growth	32
	Our approach to risk management	60
Describe management's role in assessing and managing climate related risks and opportunities.	Our principal risks	62
	TCFD	70-72
Strategy		
Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term.	TCFD	73-77
Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning.	Our commitment to sustainable growth	32
	TCFD	71-77
Describe the resilience of the organisation's strategy, taking into consideration different future climate scenarios, including a 2°C or lower scenario.	TCFD	71-77
Metrics		
Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.	TCFD	73
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks.	Our commitment to sustainable growth	38
Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	Our commitment to sustainable growth	38
	TCFD	73
Risk		
Describe the organisation's processes for identifying and assessing climate related risks.	Our commitment to sustainable growth	32
	Our approach to risk management	60
	TCFD	70-72
Describe the organisation's processes for managing climate related risks.	Our commitment to sustainable growth	32
	Our approach to risk management	60
	TCFD	70-77
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	60

GOVERNANCE

Board oversight

Climate experience at Board level has been strengthened over the last two years through the creation of a Climate Director role in 2020, currently held by Olivier Fortin, and the appointment of Joan MacNaughton to the HAHL Board[1] in 2021. These two changes further strengthen the knowledge and capability of the HAHL Board 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 and has been involved in shaping, reviewing, and endorsing our Net Zero Plan which 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 and mitigate the physical effects of climate change.

The HAHL Board has considered delivery of our net zero goals in our business planning. Over £200m of capital investment was allocated to carbon reduction in our H7 business plan and a H7 strategic carbon programme was created in 2022 to deliver the carbon reduction benefits we need to maintain our trajectory towards our 2030 goals. Climate has featured more prominently in our management business planning during 2022, and there has been Board engagement on the inclusion of carbon metrics in our Share in Success incentive schemes and the carbon metric included in Heathrow's top 10 performance KPIs in 2022.

The Board has remained engaged with key policy developments and our wider carbon performance, most notably the UK Government's Jet Zero Strategy which was released in 2022 and the outcome of Heathrow's SAF incentive, uptake and future plans. The HAHL Board receives updates on key carbon performance information quarterly.

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 is also the HAHL Board's Climate Change Director, strengthening 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.

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. They are 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 Heathrow 2.0 sustainability strategy and our Net Zero Plan within that. A Heathrow 2.0 Committee was formed in 2022 as the primary governance forum for our H2.0 sustainability strategy and broader sustainability agenda. The Committee represents all the key business functions with a responsibility to deliver aspects of our carbon and sustainability plans. A separate Carbon Programme Committee was also established in 2022 to oversee the H7 Carbon Programme and the delivery of the carbon reduction benefits that will enable us to meet our net zero goals.

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 Share in Success incentive plans. 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.

The details around carbon performance metrics in our long term incentive plans for reducing carbon emissions at the airport both "on the ground" and "in the air" can be found in our remuneration policy table.

Our remuneration policy table can be found on page 113.

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.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 86.

STRATEGY

In line with TCFD recommendations, we have used scenario analysis to assess the climate related risks to our business strategy within an envelope of 1.5°C, 2°C and 4°C futures. We use a range of scenarios to provide the best understanding of risk and improve our understanding of climate related exposure with the insights built into our internal company risk management framework.

For transition risk assessment, government regulations and internationally declared aviation sector targets are for companies to meet a net zero transition pathway towards a 1.5°C future. Pathways towards a 1.5°C rise in global temperatures are the most challenging for Heathrow as they require the greatest efforts to be made to reduce emissions and maintain passenger growth. As such, these are the main focus of our transition risk assessment while other scenarios are assumed to have a reduced level of impact.

For physical risk assessment, a 4°C future is the most challenging for Heathrow as it has the highest potential impact on financial outcomes arising from physical climate related effects. The 4°C future is used as a robust assessment of vulnerability and is the main focus of our physical risk assessment. This did not identify any medium or high risks and hence, the need for assessment of risks in a 1.5°C and 2°C scenario was considered unnecessary.

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. This year we have extended our analysis from 30 to 45 different scenarios. The datasets are based on information from the following organisations:

- Australian Department of Infrastructure, Transport, Regional Development and Communications
- Bloomberg New Energy Finance
- Civil Aviation Administration of China
- Eurocontrol
- European Airport and Airspace Operators Consortium Network for Greening the Financial System
- European Aviation[2]
- European Union
- Government of Canada
- Intergovernmental Panel on Climate Change ('IPCC')
- International Air Transport Association ('IATA')
- International Civil Aviation Organisation ('ICAO')
- International Energy Agency ('IEA')
- International Renewable Energy Agency ('IRENA')
- McKinsey
- Mission Possible Partnership
- National Grid Future Energy Scenarios
- Network for Greening the Finance Systems
- Shell and Deloitte
- Sustainable Aviation
- The Air Transport Action Group ('ATAG')
- UK Climate Change Committee ('CCC')
- UK Climate Projections 2018 ('UKCP18')
- UK Department of Transport
- United Arab Emirates ('UAE') Net Zero Strategic Initiative
- United Nations Environment Program ('UNEP')
- United States Federal Aviation Administration
- World Economic Forum

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

a) Collate information from published projections or scenarios that provide quantified projections in passenger demand, aircraft fuel efficiency, airspace management, uptake of sustainable aviation fuel ('SAF'), uptake of zero carbon emission aircraft (electric, hydrogen or hybrid) and use of carbon offsets or carbon removals).

b) Use the data to determine the 'range of consensus' (i.e., the range within which 80% of the data fit).

c) Describe the overall trends in passenger demand, aircraft fuel efficiency, uptake of sustainable aviation fuel ('SAF'), uptake of zero carbon emission aircraft (electric, hydrogen or hybrid) and the use of carbon offsets or carbon removals, and then determining a small number of representative scenarios that best describe the policy environment and market that Heathrow operates in.

To further support the analysis, a number of representative pathways and scenarios have been selected, each of which is fully supported by published evidence. Two of the selected representative scenarios are the same that were used last year, namely the Balanced Net Zero ('BNZ') and Widespread Innovation pathways published by the UK Climate Change Committee. The third, the UK Department for Transport High Ambition scenario, is updated from last year. These three scenarios 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.

When considering outcomes of the measures to achieve emission reductions, we have chosen the 'Widespread Innovation' scenario (described below), we believe this reflects a balance of the risks and opportunities that is most relevant to Heathrow.The FY2022 review of published pathways and scenarios extend the body of evidence that the CCC Widespread Innovation Pathway is near the middle of the range of assumptions for passenger demand, aircraft efficiency, uptake of SAF and zero carbon propulsion technologies and the use of carbon removals. There is growing evidence to suggest that the assumptions supporting the CCC Widespread Innovation Pathway (e.g. uptake of SAF) remain valid and this pathway remains a reasonable projection of how the aviation sector will decarbonise. The level of SAF in Widespread Innovation pathway is more aligned with policy and emerging legislation, whereas the BNZ pathway assumes a lower level of SAF uptake which is not in line with current external expectations.

More details can be found in our net zero aviation section on page 36.

[2] A consortium of European airport and air space operators, airlines and aviation industries

At the 41st Assembly in October 2022, the International Civil Aviation Organisation ('ICAO') agreed a Long Term Aspirational Goal ('LTAG') for international civil aviation to be carbon net zero by 2050, a landmark global agreement. Therefore, to bring an international perspective, we have also considered three international scenarios, namely the ICAO's 'Middle readiness/attainability and middle aspiration scenario' and the 'Low readiness attainability and high aspirational scenario', and the International Energy Agency World Energy Transition Outlook. In the majority of cases, these representative pathways and scenarios fit within the range of consensus for each theme.

A description of each of the six scenarios used for transition risk assessment referred to above is as follows:

Balanced Net Zero Scenario – UK Climate Change Committee

The UK CCC's 'Balanced Net Zero' pathway is one of five scenarios published in 2020 by the CCC for the UK's sixth carbon budget. 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 MtCO2e to be removed.

Widespread Innovation Scenario – UK Climate Change Committee

The UK CCC's '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 MtCO2e to be removed.

High Ambition Scenario – UK Government

The UK Government published four scenarios as part of the Jet Zero Consultation in July 2021, updated from last year, and 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 50% uptake of SAF, and a residual of 15 MtCO2e 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.

Middle readiness/attainability and middle aspiration Scenario – ICAO

The ICAO 'Middle readiness/attainability and middle aspiration scenario' represents the 2021 expectation of future technology, operational efficiencies and fuel availability and includes the expectation that policy will support development in these three areas. This scenario (2) is described as an 'increased ambition' scenario and considers that these improvements will have a faster rollout.

Low readiness/attainability and high aspiration Scenario – ICAO

'The low readiness/attainability and high aspiration scenario' "represents the maximum possible effort in terms of future technology rollout, operational efficiencies and fuel availability. It assumes maximum policy enablers for technology, operations and fuels."

World Energy Transitions Outlook – International Energy Agency

The World energy Transitions Outlook outlines what is required for a shift to net zero and presents an energy pathway that is consistent with limiting global temperature rises to 1.5°C – a pathway IRENA calls the 1.5°C Scenario (1.5-S). This was complemented by the 2022 report which aims to guide policymakers to stay on track of the 1.5°C path to 2050. Holding the line at 1.5°C means reaching net zero by 2050 and ensuring a rapid decline in emissions beginning now. The Outlook offers a compelling path for decarbonising all energy uses, with electrification and energy efficiency as primary drivers, enabled by renewables, green hydrogen and sustainable modern bioenergy.

Scenario analysis 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 145. The judgements of these balance sheet items are treated as a significant/critical accounting judgement since, although we deem our approach to scenario analysis to be balanced, we recognise that there are external scenarios that would lead to lower future passenger forecasts.

RISK MANAGEMENT

Climate risks are included in our overall risk management framework. 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 aligned 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.

More details can be found in our approach to risk management section on page 60.

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 two 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 carbon objectives, goals, targets and performance are detailed on pages 34-37

Our plan aims to align as closely as possible with the UK Climate Change Committee's Balanced Net Zero Scenario trajectory for emissions included in their recommendation to the UK Government for the sixth carbon budget. The plan supports the aviation industry goal to achieve net zero emissions by 2050 and the roadmap to get there.

We show in our published plan how our net zero trajectory aligns with the CCC's BNZ and Widespread Innovation pathways. More information can be found on pages 34-37 on the choice of the Widespread Innovation scenario.

We have submitted our application for a science-based target which draws on the net zero trajectory and goals in our plan, and we await a final decision from the science-based Targets initiative.

Our strategic carbon programme, which was launched in 2022 - backed by over £200m of investment – will deliver the elements of our plan through the H7 settlement period and keep us on track to hit our 2030 goals. We continued to embed climate change into business planning and decision-making – with a focus on management business planning and capital investment.

Performance against our net zero trajectory is measured in absolute carbon emissions and reported annually in our carbon footprint.

Our carbon footprint including Scope 1,2 and 3 can be found on page 38.

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. Transition risks in this period could threaten our ongoing recovery 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 five years. We issued an updated risk assessment in January 2022 which uses the latest UK climate projections and continues to inform our disclosure. We completed further refinement of our risk assessment during 2022 and started a more detailed flood risk investigation to understand where we might need to strengthen our current level of mitigation. In 2023, we will assess our wider asset base to determine likely investment needs over the long term. It is likely that a combination of operational measures and capital investment will be required over time to mitigate the impact of physical risks, guided by the outcome of our 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. In assessing financial materiality associated with transition and physical climate risks, we have used low, medium and high as an expected indicator to their scale that might not align with materiality used in the financial statements. More work is required to provide exact values or ranges and will be provided in the future.

TRANSITION RISKS

Market and policy

WHAT IS THE RISK

The market for air travel does not grow as much or as quickly as we currently forecast for four 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.
- Delays in government policy, and hence investment in decarbonisation.

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 built 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 45 different net zero emission pathways from respected sources to fully understand the scale of the risk. All sources are listed on page 71.

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 the future; therefore, we continue to focus on scenarios from the UK's Climate Change Committee (‘CCC’), and by UK Government scenarios as these reflect our business and future market most accurately, including its updates in 2022. These scenarios include an assessment of the effects on global aviation demand. The basis for our scenario analysis is set out on page 71.

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 our 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 affecting 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.

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 an important issue for consumers. People continue to be more concerned about environmental aspects of sustainability, but social concerns about fair salaries have grown. Whilst avoiding flying is not for everyone, most people would consider making some changes to their flying behaviours There is no evidence to suggest a shift in consumer behaviour today, but airlines and airports need to start demonstrating their sustainability credentials to assure flyers as well as offer more tangible and simple solutions.

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 UK 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 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 them enter airline fleets.

Currently SAF costs up to five times more than kerosene, depending on the feedstock used. 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. The launch of the UK's Jet Zero strategy in 2022 included a proposal for a mandate for 10% SAF in the UK fuel mix by 2030 and a target for at least five new commercial-scale UK SAF plants under construction by 2025. Heathrow is an active member of the UK Government's Jet Zero Council. Policy announcements by the US and Europe to support SAF production will also drive the scale up of SAF in two key markets for Heathrow.

From 2022, our landing charges included a new financial incentive to help make SAF more affordable for airlines. The incentive supported a 0.5% SAF purchase in its first year, climbing steadily in the following years. In 2023, the incentive will rise to 1.5%. It is intended to provide an incentive for SAF use ahead of the introduction of the UK Government's SAF policy in the form of a SAF mandate and price incentives, which we are calling to be introduced form 2025. However, Heathrow's SAF incentive has the potential to be extended as a long-term trajectory to signal demand to help support SAF investment. We are planning to engage with our airline customers and fuel producers / investors during 2023 to understand the value of such an incentive.

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 established our H7 Carbon Programme to deliver the emissions reduction necessary in this period and keep us on track to reach our goal.

In the air, projects include enabling works for airspace modernisation, improving aircraft efficiency, and initial operational trials to support the introduction of zero emission aircraft from later this decade.

On the ground, the programme will also invest in pre-conditioned air (‘PCA’) to reduce aircraft emissions at the gate, in the charging infrastructure, in the transition to zero emission ground-based vehicles, and in the development of the solutions to decarbonise our buildings and infrastructure.

Our Net Zero Plan and our progress during 2022 are covered in more detail on pages 34-37.

FINANCIAL MATERIALITY

Financial materiality: **HIGH**

Passenger numbers are the key driver of revenue at Heathrow. 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 Carbon Programme. The adoption of zero carbon emission aircraft will require more substantial changes to airport infrastructure and operations. The implications for the airport are becoming increasingly clear following the final report from project NAPKIN in November 2022, which provided initial assumptions on volumes of hydrogen required by new aircraft from the mid-2030s. Its findings show that until at least the late 2030s delivery of hydrogen to the airport by vehicle will be viable, resulting in limited storage and distribution infrastructure until the 2040s. In 2018, we announced a financial incentive, promising that the first zero-carbon aircraft will not have to pay our landing charges for an entire year when it is put into regular service at Heathrow.

HOW WE ARE ADDRESSING THIS RISK

Hydrogen-fuelled aircraft are expected to be operating commercially from Heathrow in the 2030s. To prepare, NAPKIN has informed potential infrastructure implications for Heathrow and we are further developing the research in 2023. Third-party studies are also providing valuable information, including the publication in 2022 of the Aerospace Technology Institute's "Fly Zero" reports.

More information can be found on page 37.

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. Our H7 Carbon Programme will deliver the initiatives that will cut emissions in the H7 period and put us on the path to achieving our 2030 net zero goals.

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 and those systems and processes provide a good level of mitigation which will 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 to 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.

In 2022, we continued to strengthen our assessment and understanding of climate physical risks, building on our latest Climate Change Adaptation Report and Risk Assessment. Integration of the material risks into functional risk registers during the year enabled more detailed consideration of the risks and ensured clear accountability and management of the risks at the right level in our business. Furthermore, this step ensures that 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.

A programme of activity is planned for 2023 to assess our asset base against the possible long term climate change effects in more detail, to develop a high-level investment case for any improvements that may be required to increase our mitigation. The extreme heat experienced during 2022 provided a real-world test of short-term temperatures at levels above 40°C resulting in no major impacts to the operation of our airport. Our separate investigation to stress test the airport drainage system against the effects of climate change will also complete in 2023.

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 by taking early and proportionate action, adaptation can be better aligned with typical asset investment cycles or with sufficient time to plan operational mitigations.

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 signalled a likely need to the CAA for investment in climate resilience in future settlement periods during the H7 regulatory settlement process.

New infrastructure at the airport will continue to adopt the latest climate change standards. 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 further research is necessary to understand exactly how this risk, would affect Heathrow's network.

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

Our current focus is on improving our understanding of possible future risks and the impacts on our route network and passenger demand. We have broadened our research in 2022 by developing an initial climate hazard and vulnerability review of Heathrow's 20 most financially material routes by revenue (in 2019).

The review considers climate profiles of destinations by looking at the historical climate risks, projected future climate risks, financial materiality to HAL revenue, as well as possible implications to HAL from regional impacts of climate disasters.

All top 20 destination airports are projected to be exposed to a future increased risk of extreme temperature and drought, to varying degrees under a 4°C emissions scenario. A high risk of drought is projected for destinations in the Middle East. Tropical cyclones and hurricanes, are expected to have the highest-level of risks across several locations, including Hong Kong International Airport, Washington Dulles International Airport, John F. Kennedy International Airport, Newark Liberty International Airport and Miami International Airport. In line with global predictions, sea level is expected to rise, and flooding will impact coastal destinations and an increase in the intensity of precipitation events will exacerbate urban and fluvial flood risk across many destinations.

Our latest assessment provides new information on the possible level of disruption at individual destination airports and the degree of impact on overall passenger revenues. The initial findings indicate that Heathrow's large global network provides a level of resilience against impacts at individual destinations. Extreme climate events can have a strong impact beyond the boundaries of one location and country however, and could have the potential to generate more material impacts. We will expand our assessment during 2023 to consider possible impacts from a regional perspective and determine the level of risk that may pose to our business in future.

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. Heathrow's large global network of destinations provides a level of resilience to events at individual destinations. However, the systemic cumulative effect of extreme climate events on groups of airports from a regional perspective could potentially have a more material impact. Our assessment is based on our latest current understanding of the risk and its potential financial impact on Heathrow. It will be refined as we continue to develop our understanding of possible impacts as our 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 24, 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 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 page 81.

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, environmental, social and corporate governance ('ESG') 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 86.

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 56 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.	No dividends were recommended by the Directors of the Company in 2022.
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 £0.5bn of Class A funding across public and private markets and refinancing of the Revolving Credit Facility.

KEY DECISIONS MADE BY THE HAHL BOARD

Board Decision	Stakeholders	Considerations	Outcome
Operational Safety	Colleagues Passengers Airlines Suppliers and Commercial Partners Regulator Government Investors Trade Unions Community and the environment	The HAHL Board continues to prioritise fire, safety, health and wellbeing ("safety") in its allocation of time for discussion and decision making. This involves understanding, acknowledging, and supporting the investment required to ensure a safe operating environment for colleagues, passengers and Team Heathrow stakeholders, one in which fire, safety and health ("safety") risks are managed within risk appetite, and where performance outside of risk appetite is scrutinised and challenged. Safety considerations and performance are presented to the HAHL Board via quarterly Sustainability and Operational Risk Committee ('SORC') meetings. The Chair of SORC presents to the HAHL Board. Reports to SORC are by exception and present risks, issues and incidents, underlying causes and the action being taken in response. At the start of 2022, the HAHL Board continued to oversee Heathrow's response to COVID-19 given the prevalence at that time. As the prevalence and risk have changed through 2022, COVID-19 is now considered as a business-as-usual risk and included in the 'by exception' reporting to SORC.	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.
		The HAHL Board continues to oversee fire safety and receives regular updates on fire safety risk and controls including the application of learning from the Grenfell enquiries.	Fire continues to present a significant risk to Heathrow's operations. Post Grenfell, work continues to ensure that Heathrow meets new legislative requirements and applies transferable learning.
		The HAHL Board understands the importance of the wellbeing and mental fitness of Heathrow colleagues in the context of attracting new talent, retaining experienced and skilled talent, engagement, safety, productivity, and performance. The HAHL Board is guided on health and wellbeing matters by the Chief Medical Officer and expert behavioural psychologist.	The HAHL Board's continued focus on health and wellbeing issues has accelerated the development of Heathrow's health and wellbeing strategy, which will be delivered in Q1 2023.
		In addition to the above, the HAHL Board receives a short Board Safety Moment each month. Safety moments are used to ensure the HAHL Board is sighted on underlying causes and action taken in response to significant incidents. They are for information, rather than decision making, but help to build the HAHL Board's understanding of safety issues generally at Heathrow. Examples in 2022 include learning from an incident that closed the main tunnel into the Central Terminal Area and caused significant operational disruption. Whilst there was no harm caused, the nature of the incident was such that serious harm could have been caused and was therefore investigated and reported as such.	
		Regrettably in 2022 a Team Heathrow colleague was fatally injured whilst at work in the operation as a result of an accident. The HAHL Board was immediately informed of the incident and took the matter very seriously. Following a thorough investigation, the findings and related actions from the incident were shared and considered as part of the HAHL Board Safety Moment.	In response to the fatality, the HAHL Board requested a review of safety culture and performance across Team Heathrow, with a particular focus on ramp and baggage operations. The review involved key Team Heathrow organisations, and the results were shared with the HAHL Board along with a series of recommendations designed to further strengthen safety culture and improve performance. The recommendations included: moving from a 'policing' to a 'coaching' approach, working collaboratively with Team Heathrow, and the proposal for a Safety Culture Programme and continued measurement. The recommendations to strengthen safety culture, including the move to a more interventionist approach, were fully supported by the HAHL Board.

KEY DECISIONS MADE BY THE HAHL BOARD (CONTINUED)

Board Decision	Stakeholders	Considerations	Outcome
Building Back Capacity	Colleagues Passengers Airlines Regulator Government	During the year, the HAHL Board considered several matters relating to building back capacity and resilience of the airport post the COVID-19 pandemic. When looking at these issues the HAHL Board considered the following factors amongst other things: • The latest information of passenger demand. • The performance pan airport across key passenger segments (passenger, bag, aircraft). • The service being provided to passengers. • Colleague recruitment and retention. • The Government's position on slot hand-backs and amnesty, and in particular their 22- point plan to minimise disruption in Aviation. • Results of airline engagement and consultation. • The review of ground handling arrangements across the airport being undertaken in conjunction with the UK Government. In July, following the completion of the slot hand back amnesty process, and with consideration of poor operational performance across the airport eco-system, which was negatively impacting passenger journeys and colleagues' well-being, the HAHL Board considered the implementation of a passenger cap to limit demand and to be in line with overall capacity of the ecosystem. The HAHL Board also considered the key factors in developing a phased approach to lift and remove the capacity cap. From September to November the HAHL Board considered the progress of developing our Build Back Capacity Programme of works. In November, following consultation with airlines over potential mechanisms to balance demand and capacity over the Christmas period, and taking into consideration the factors and stakeholder impact, it was concluded that another capacity cap was not required.	Following the introduction of the initial passenger cap in July 2022, set out in Heathrow Local Rule A, it was possible to remove the cap in time for the October 2022 half term and avoid the implementation of a further cap during the 2022 Christmas period.
Regulation	Colleagues Passengers Airlines Suppliers and Commercial Partners Regulator Government Investors	During the course of the year the HAHL Board considered and approved a number of key submissions to the Civil Aviation Authority 'CAA' on matters of regulatory policy as well as the Regulatory Business Plan for H7. In August, the HAHL Board considered and approved an updated regulatory plan that took into account the latest information on traffic and other factors. It also considered and approved Heathrow's response to the CAA Final Proposals in August. In December, the HAHL Board considered and approved the December 2022 Building Block update that was provided to the CAA setting out our latest forecast for passengers, costs, revenues and required return. The HAHL Board also considered and approved Heathrow's response to the CAA consultation on a holding price cap for 2023. In considering and assessing H7 issues, the HAHL Board took into account the requirements of the CAA, Government policy (in respect of security requirements), consumer research undertaken to ensure Heathrow's plans met consumers' needs, and the views of airlines. The HAHL Board also considered the financial implications of the plans carefully before approving them.	Following our response to the CAA's Initial Proposals in December 2021, the CAA set out its Final Proposals for H7 in July. This set out a proposed price path for H7 of CPI-5.74%. We responded to the CAA in August setting out a number of errors in the CAA's analysis. Subsequently, the CAA has delayed issuance of its Final Decision until 2023. In December it consulted on a holding price cap for 2023 of £31.57, in line with its Final Proposals. Further updates from the CAA in response to Heathrow's submissions are due during 2023.
Cost of Living Challenge	Colleagues Suppliers and Commercial Partners	During 2022 the UK experienced increasing inflation, which has had a significant impact on Heathrow colleagues and the cost of living. The 'Cost of Living' crisis driven by rising costs, has put significant pressure on household budgets, particularly around the price of food, fuel, gas and electricity bills, as well as a recent rise in mortgage interest rates. These financial pressures have caused industrial unrest across many industries, as Trade Unions demand pay settlements at or above inflation. Many organisations have sought to secure deals that are more aligned with the market, which has led to pay disputes across many sectors. As a consequence of the Cost of Living crisis and market conditions, the HAHL Board considered options to support Heathrow colleagues through the provision of an enhanced pay deal and a winter support package.	In 2022 Heathrow agreed a Pay Deal of 4% plus a £2,000 lump sum payment to support colleagues through the Cost of Living crisis. At that time, we agreed to meet with our Unions in January 2023 to discuss the economic climate. A winter support package was launched to provide a hot main meal for colleagues while at work, together with financial coaching and a reminder of the current benefits and discounts available to colleagues.

STAKEHOLDER ENGAGEMENT

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. Heathrow also undertakes a wide range of consumer research to inform how we can improve our services, obtaining qualitative and quantitative feedback from over 350,000 passengers per year. Heathrow receives feedback from over 2 million current consumers via real time channels such as twitter, social media, feedback channels and real-time feedback devices. Heathrow uses its consumer engagement to inform investment and process improvement decisions. In addition, Heathrow has an online community (Horizon) consisting of current and potential Heathrow users which is used when developing new passenger solutions. We have several independent passenger groups whose role is to scrutinise and challenge the service we provide for our passengers. These include the Passenger Services Group ('PSG'), which is part of the Council for the Independent Scrutiny of Heathrow Airport ('CISHA') and the Heathrow Access Advisory Group ('HAAG') who advise on how Heathrow creates an accessible and inclusive experience.	
Communities and the environment		
Working with local communities, enables us to deliver on the objectives of Heathrow 2.0, our sustainability leadership plan.	The Council for the Independent Scrutiny of Heathrow Airport ('CISHA') ensures independent oversight of the way in which 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. It is independently chaired, and its members are the independent chairs of other Heathrow forums, aviation industry and government bodies, Heathrow Strategic Planning Group and Heathrow. The Local Community Forum ('LCF') facilitates a positive dialogue between Heathrow Airport and its neighbouring communities to help build relationships and trust to enable Heathrow to be a better neighbour. It is independently chaired, and its members are nominated representatives of Local Liaison Groups and Heathrow. The Local Liaison Working Groups (North, South, East and West) enable members to improve Heathrow's understanding of key concerns of communities living around Heathrow and work together to minimise impacts locally. They are chaired by Heathrow and members are representatives of community groups. The Heathrow Local Recovery Forum ('HLRF') was set up in 2020 to collaborate with stakeholders on local economic recovery and growth post-pandemic and to deliver the recommendations set out in Heathrow's Local Recovery Plan. It is independently chaired, and its members are representatives of local councils, enterprise partnerships, education providers, business groups, chambers of commerce and Heathrow. The Noise and Airspace Community Forum ('NACF') engages on issues related to noise, airspace and runway operations at Heathrow, including updates on day-to-day operations and future changes. It is independently chaired, and its members are representatives of local authorities, community groups, aviation industry and government bodies and Heathrow. The Heathrow Area Transport Forum ('HATF') provides input to ongoing surface access initiatives related to the Heathrow. It is independently chaired, and its members are industry bodies, trade unions and Heathrow. The Heathrow Air Quality Working Group provides a forum for consultation on Heathrow's air quality strategies and progress towards meeting its targets. It is chaired by Heathrow, and its members are representatives of local authorities and Heathrow. The Heathrow Strategic Planning Group ('HSPG') is a 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. It is independent but works constructively with Heathrow. We also use social media, our website and email communications to communicate directly with our communities. More information on local community can be found at www.heathrow.com/company/local-community More information on Sustainability can be found at www.heathrow.com/sustainability More details on our commitment to sustainable growth can be found in the section from page 32	

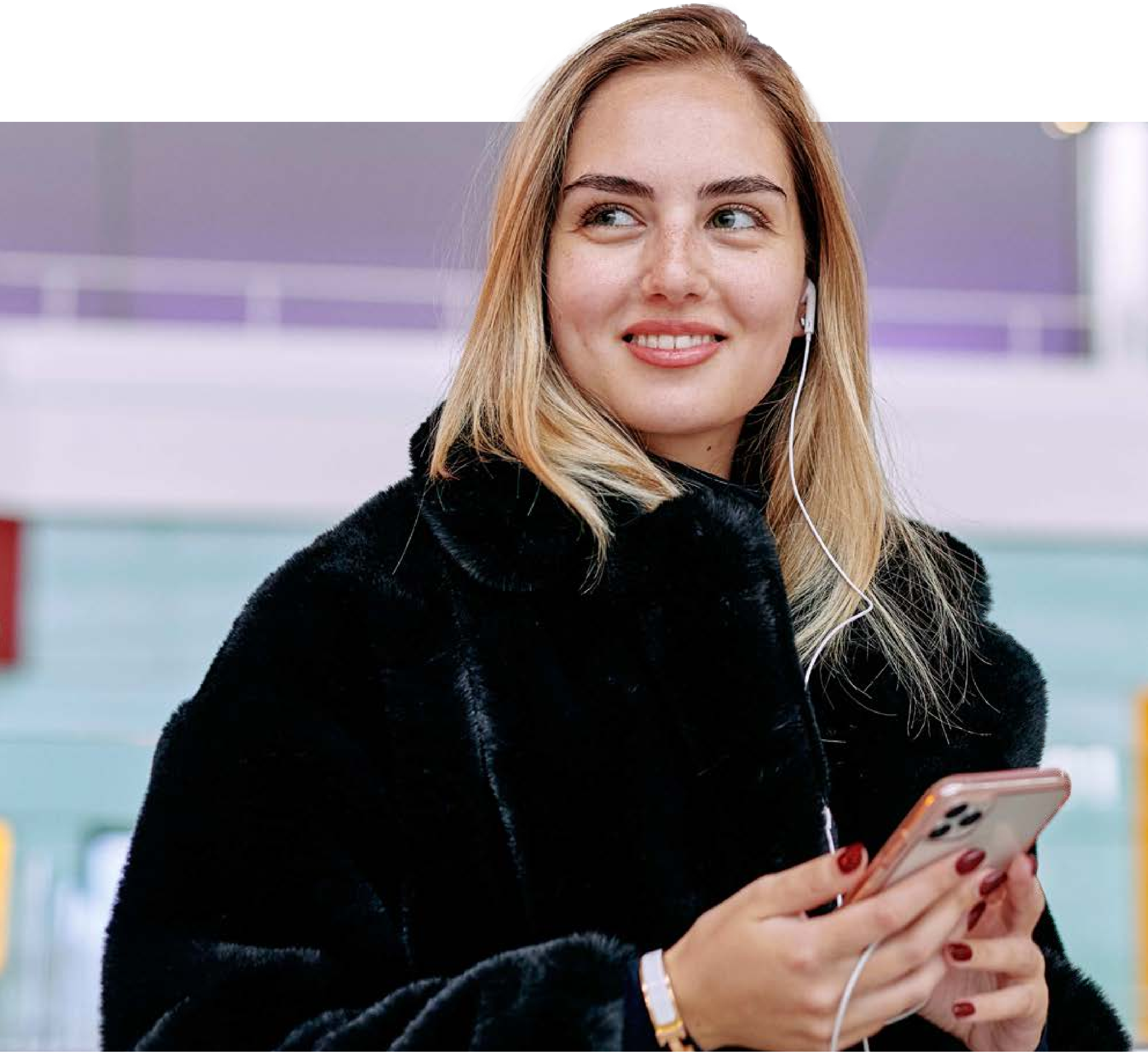
STAKEHOLDER ENGAGEMENT (CONTINUED)

WHY WE ENGAGE	HOW WE ENGAGE	LINK TO STRATEGIC PRIORITIES
Colleagues		
Driving positive engagement with colleagues is pivotal to ensure that we continue to deliver excellent service to customers and stakeholders. Engaged individuals create high-performance, flexible and diverse teams and will support the achievement of Heathrow's strategic objectives.	Three Pulse surveys run annually across the whole Heathrow population, capturing data for the KPI of 'Heathrow is a Great Place To Work' and other key engagement metrics. This data is then analysed and used company-wide and locally to inform engagement strategies and activities. In Non-Operational areas, Business Partners work with Leadership Teams to establish and support local engagement teams to create conversation platforms, ensure information sharing, and help create a team spirit and sense of belonging. There are team events and other activities to keep colleagues informed and engaged. In Operational areas there are regular team updates through Buzz, Hub+ and focus groups organised around relevant topics from specific engagement feedback. An increased focus on delivering 1:1 manager to colleague time and restarting pre-shift briefings in Security. An Ops Webinar runs monthly via Teams and is recorded to keep colleagues updated on what is happening in the airport. We have four Equality, Diversity and Inclusion networks (HAND, enHANCE, Altitude and PROUD) that use their platforms to promote an inclusive culture through online and in-person events, fundraisers and awareness campaigns. There is a continued drive to ensure those networks are included in business decisions to ensure Heathrow is inclusive to all. Colleague safety is a continued top priority and is monitored through business and colleague reporting. The 'Close Call' target puts the ownership on colleagues and allows the business to continuously improve safety of working environments and prevent workplace accidents. In 2023 and beyond, the Engagement team are working closely with the Internal Communication team to share the right messages at the right time, keep colleagues informed and to continue to highlight the importance of the colleague voice.	
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 ten 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 ten per cent held. We provide quarterly financial updates, semi-annual investor reports and debt investor presentations. We provide an Annual Report and Financial Statements, 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. Heathrow corporate website at 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, and pricing and governance around capital spend. This engagement is overseen through a Joint Steering Board. This is augmented, as is necessary, by further bespoke engagement on a range of issues as an airline or as an airport community. Quarterly joint executive meetings and business review meetings take place with key customers. The CEO regularly visits major current and potential international airlines.	

WHY WE ENGAGE	HOW WE ENGAGE	LINK TO STRATEGIC PRIORITIES
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.	Heathrow has focused on building strong relationships with our Suppliers to fulfil our vision of giving passengers the best airport service in the world. As Heathrow builds back its capacity following the pandemic we priorities our community and our local recovery plans. In order to meet our ambitions and commitments we have several areas of engagement. Our Heathrow Business Summits give participants the chance to meet and collaborate with Heathrow's key suppliers, regional Small to Medium Size Enterprises ('SME's'), fellow Team Heathrow colleagues and retail partners across Heathrow. To complement our summits Heathrow is launching some new approaches to working with SME's that will enable our goals in the local recovery plan. We will procure our goods, manage our strategic partners and wider supply chain using a balanced score card approach, which includes the requirement to work with SME's as well as other strategic initiatives. Heathrow will make all opportunities for work visible to the supply chain via its new platform, CompeteFor. These opportunities include direct, within our supply chain and across London with many other clients. Finally, we will attract innovation and micro SME activity from our new forum to examine and share ideas entitled Heathrow lift off with our first event in March 2023. Further methods of working with SME's are in development. Our balanced scorecard facilitates a method of working with strategic suppliers which hones them in on the goals of Heathrow 2.0. This covers our carbon, social value, local economy, innovation and cultural behaviors we aspire to. This span of objectives attracts commitments from our partner organisation which are then contracted for measurement. The balanced scorecard will go live in 2023.	
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 at all levels from CEO to working level to discuss all issues relating to the economic regulation impacting 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 takes place through the Annual Regulatory Accounts.	

SECTION 02

GOVERNANCE REPORT



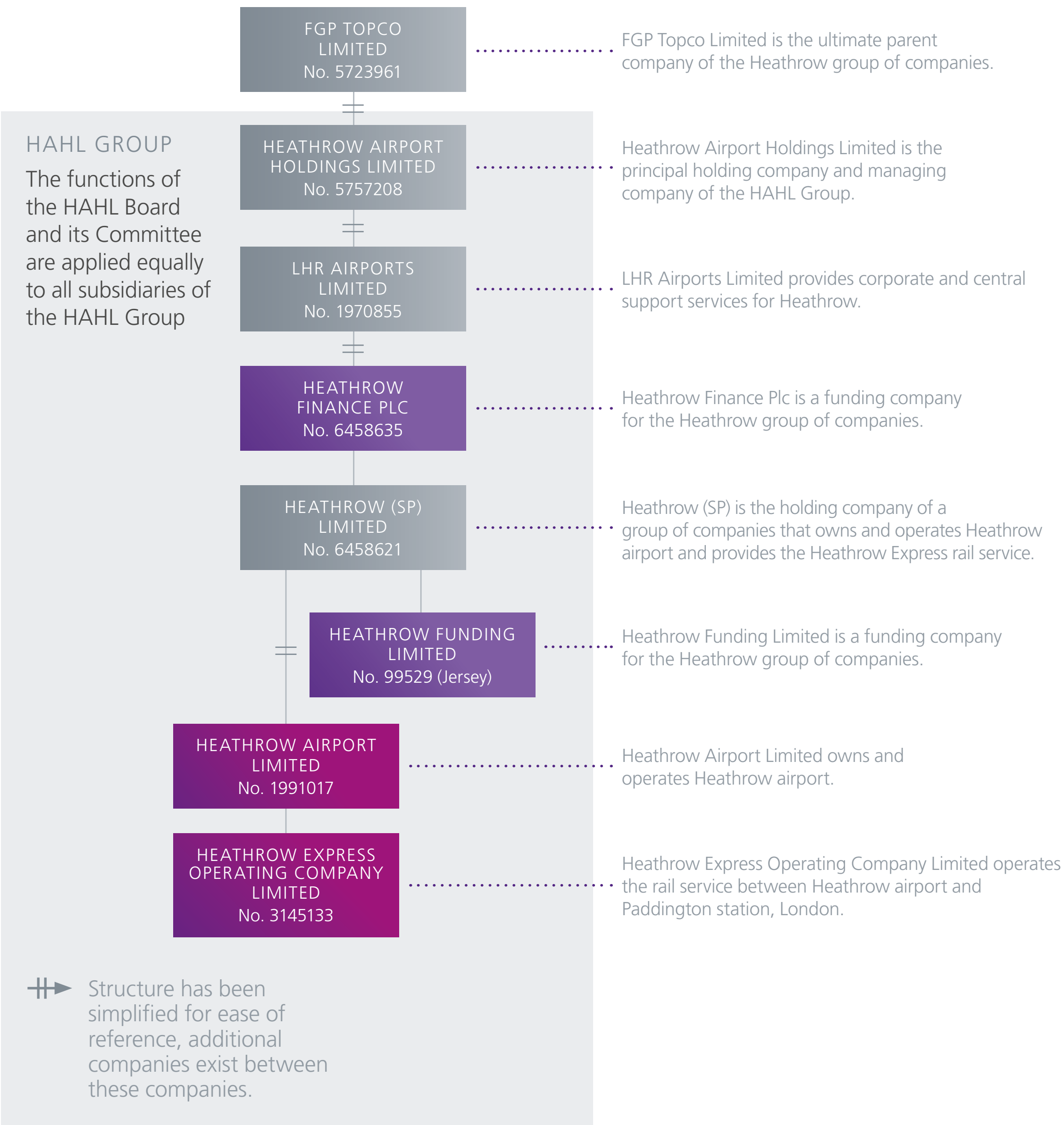
GROUP STRUCTURE

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, monitors performance, and meets 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 2022, are shown in the table:

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%**

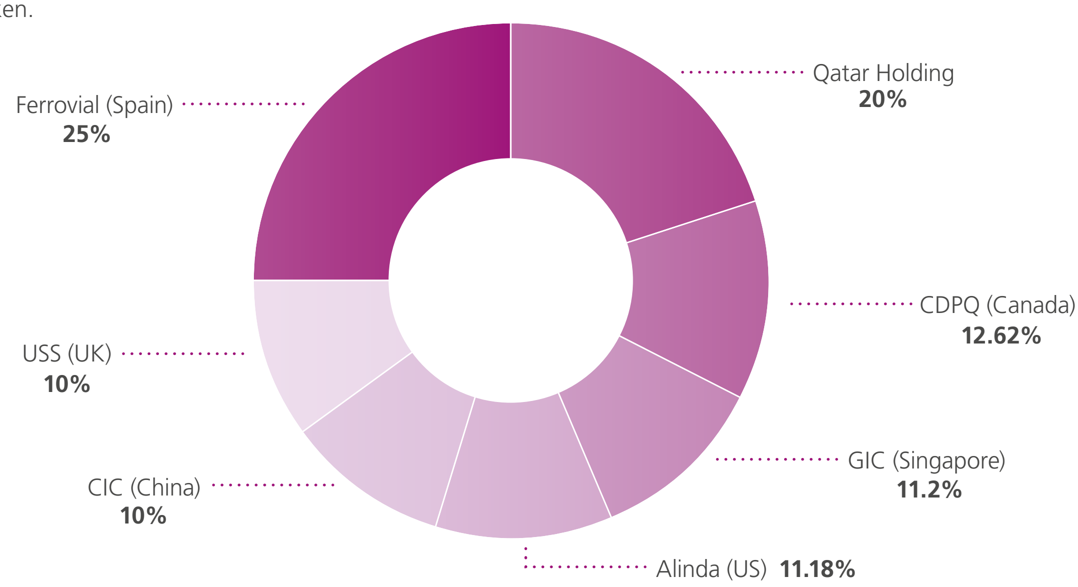
Shareholders' Agreement

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 ten 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 ten 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 AND EXECUTIVE DIRECTORS

N

LORD PAUL DEIGHTON
CHAIRMAN

Appointed June 2016

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, served as 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 Block, 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.

F S

JOHN HOLLAND-KAYE
CHIEF EXECUTIVE OFFICER

Appointed July 2014

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 an Advisory Board member of the former Prince of Wales' Sustainable Markets Initiative and chair of its Aviation taskforce. He is a Non-Executive Director at Thames Tideway, a Commissioner with the Energy Transitions Commission and the Global Britain Commission and Chair of West London Business Corporate Leaders Action Group. John has announced that he will be standing down as CEO of Heathrow during 2023 after having served nine years in the role.

F

JAVIER ECHAVE
CHIEF FINANCIAL OFFICER

Appointed November 2016

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.

HAHL BOARD OF DIRECTORS
INDEPENDENT NON-EXECUTIVE DIRECTORS

RT. HON RUTH KELLY
A F

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed April 2019

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 helps 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
S

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed June 2021

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 Chair of the World Energy Council Trilemma, and has a high-level international network. She is currently a Trustee of the Green Purposes Company and 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.

MARK BROOKER
S R

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed April 2022

Mark was appointed to the Board as a Non-Executive Director on 1 April 2022. During his executive career, Mark was latterly Chief Operating Officer for Trainline, Europe's largest independent retailer of rail and coach tickets. Before Trainline, he was Chief Operating Officer of Betfair Group Plc, a leading online gambling operator and now part of Flutter Entertainment. During his earlier career, Mark spent 17 years in investment banking working for Morgan Stanley, Merrill Lynch, NatWest and NM Rothschild & Sons. Mark brings a diverse range of Non-Executive Board Director experience and currently sits on the boards of Findmypast, a leader in online genealogy, where he is Chairman; Future Plc, a global platform for specialist media and member of the FTSE250; Paysafe, an online payments system; and Seedrs, a digital fundraising platform for early-stage businesses. He also recently served as a Non-Executive Director of Equiniti, an international provider of share registration, pension administration and other technology-enabled business outsourcing; William Hill, one of the largest gambling operators in the UK; and the AA, the UK's leading provider of roadside assistance. Mark holds a Master's Degree in Engineering, Economics and Management from Oxford University.

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

A N F S

HIS EXCELLENCY AKBAR AL BAKER
NON-EXECUTIVE SHAREHOLDER DIRECTOR

Appointed January 2013

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 Chairman 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).

F R

AHMED AL-HAMMADI
NON-EXECUTIVE SHAREHOLDER DIRECTOR

Appointed February 2018

Ahmed is the Chief Investment Officer for Europe, Russia and Turkey. He oversees Qatar Investment Authority's direct sector investments in Europe, Russia and Turkey. Prior to joining QIA, Ahmed worked at EFG-Hermes as 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 also sits on the boards of SoFi, Borsa Istanbul and Pavillion Real Estate Investment Trust. He was named a Young Global Leader by the World Economic Forum in 2019. Ahmed is a graduate of the Wharton School at the University of Pennsylvania and obtained his MBA from the Harvard Business School.

Alternate: Deven Karnik (appointed September 2014).

N F R

STUART BALDWIN
NON-EXECUTIVE SHAREHOLDER DIRECTOR

Appointed April 2006

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.

Alternates: Kamil Burganov (appointed January 2020 and resigned 26 January 2022), Jessie Jin (appointed 26 January 2022).

F R

A R N F S

CHRIS BEALE
NON-EXECUTIVE SHAREHOLDER DIRECTOR

Appointed October 2011

Chris founded Alinda Capital Partners, an independent investment firm whose 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 at Citigroup. He previously led infrastructure businesses at Morgan Stanley and Credit Suisse. Chris recently became a member of the Remuneration Committee on 30 January 2023.

Alternates: Sam Coxe (appointed November 2012 and resigned 20 May 2022), Benjamin Catt (appointed 29 September 2022).

LUKE BUGEJA
NON-EXECUTIVE SHAREHOLDER DIRECTOR

Appointed June 2021

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 and resigned 31 December 2022), Ignacio Madridejos Fernández (appointed June 2021), Ignacio Castejon Hernandez (appointed June 2021 and resigned 29 September 2022), David Kenny (appointed 29 September 2022).

MARIA CASERO
NON-EXECUTIVE SHAREHOLDER DIRECTOR

Appointed January 2019

Maria is an 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 and resigned 31 December 2022), Ignacio Madridejos Fernández (appointed January 2020), Ignacio Castejon Hernandez (appointed March 2020 and resigned 29 September 2022), David Kenny (appointed 29 September 2022).

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

A F S

OLIVIER FORTIN
NON-EXECUTIVE
SHAREHOLDER DIRECTOR

Appointed October 2015

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. After being seconded for eight months to Eurostar as Managing Director in charge of the COVID-19 response in 2020-21, Olivier is now working back full time for CDPQ. 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 and Ermewa (wagon/tank container leasing). Olivier was appointed as the HAHL Board's Climate Change Director on 27 January 2021.

A F R

ERNESTO LÓPEZ MOZO
NON-EXECUTIVE
SHAREHOLDER DIRECTOR

Appointed October 2009

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 (appointed January 2020), Gonzalo Velasco Zabalza (appointed January 2020 and resigned 31 December 2022), Ignacio Castejon Hernandez (appointed March 2020 and resigned 29 September 2022), David Kenny (appointed 29 September 2022).

F N

MIKE POWELL
NON-EXECUTIVE
SHAREHOLDER DIRECTOR

Appointed November 2014

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.

Alternates: Tom Kelly (appointed October 2018 and resigned 1 July 2022), Mary Ann Hogan (appointed 20 July 2022).

COMPANY SECRETARY

F

DAVID XIE
NON-EXECUTIVE
SHAREHOLDER DIRECTOR

Appointed September 2018

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 digital 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.

Alternates: Jinhong Chen (appointed 26 September 2018 and resigned 30 June 2022), Chao Wang (appointed 30 June 2022 and resigned 30 November 2022), Ben Niu (appointed 30 November 2022).

MINE HIFZI
GENERAL COUNSEL AND
COMPANY SECRETARY

Appointed Company Secretary July 2022

Mine was appointed General Counsel and Company Secretary at the beginning of July 2022. Before joining Heathrow, she was General Counsel at Virgin Media for seven years where her remit was expanded to also include regulatory and corporate affairs. Prior to Virgin Media, Mine was at Scripps Networks Interactive as Senior Vice President of Commercial and Legal Affairs, where she held a combined international legal and commercial role. Mine has also held a number of other senior roles including, Senior Vice President and Chief International Counsel at Discovery Communications, and senior international legal positions at Turner Broadcasting and United International Pictures. She trained and worked as a solicitor at Clifford Chance LLP.

COMMITTEE KEY

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

EXECUTIVE COMMITTEE

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

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.

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 19-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 ten years at British Airways where she held development management and consultancy roles.

JOHN HOLLAND-KAYE
CHIEF EXECUTIVE OFFICER

JAVIER ECHAVE
CHIEF FINANCIAL OFFICER

MINE HIFZI
GENERAL COUNSEL
AND COMPANY SECRETARY

For biographical details see page 88 and 93

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.

EMMA GILTHORPE
CHIEF OPERATING OFFICER

Emma was appointed Chief Operating Officer in March 2020. Since joining Heathrow in September 2009 she has led a diverse range of functions. Initially as Regulatory Director, then leading the Strategy and Sustainability functions and latterly Capital Programme delivery teams. More 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, including at BT, across a range of regulatory, strategic and public policy roles. Overall, her career has been anchored in regulated infrastructure, both listed and private, as incumbent and competitor.

Emma originally qualified as a barrister and is currently the Government appointed CEO of the Jet Zero Council.

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

"The HAHL Board has acted decisively to ensure that Heathrow can swiftly build back capacity, resilience and service without compromising safety and security."

LORD PAUL DEIGHTON
Chairman

Heathrow's purpose is to give passengers the best airport service in the world, and I am pleased to introduce this report, which describes the activities of the HAHL Board during the year, along with Heathrow's governance arrangements. The HAHL Board has remained focused on taking the appropriate action to ensure the business has been able to respond to the rapid growth in demand seen throughout the year. During this time, the safety and well being of passengers and colleagues has remained the number one priority and the HAHL Board has focused on ensuring that the airport continues to operate safely. The HAHL Board has also sought to support the Company's sustainability strategy and achieve a fair and balanced regulatory settlement for the H7 regulatory period. Our robust governance framework has helped to facilitate this work.

There were a number of changes to the HAHL Board during 2022. In April, we welcomed the appointment of Mark Brooker as a new Independent Non-Executive Director, who brings a wealth of experience from the retail and technology sectors. At the beginning of July, we also welcomed the appointment of Mine Hifzi as our new General Counsel and Company Secretary, who replaced Mark Oliver, who had been acting in an interim capacity. Mine brings a wealth of experience from the telecoms and media sectors. More recently John Holland-Kaye has announced his intention to step down as CEO of Heathrow and as an Executive Director of the HAHL Board during 2023.

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.

As a Board, we're committed to robust standards of corporate governance and, for the year ended 31 December 2022, the HAHL Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ('FRC') in December 2018. We believe that high standards of corporate governance are central to the effective management of the HAHL Group and to maintaining the confidence of our stakeholders and investors.

The Wates Principles provide a framework for the HAHL Board to monitor corporate governance of the HAHL Group and consider opportunities 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 opposite summarises the six Wates Principles and indicates where more information can be found in the strategic and the governance reports. Throughout 2023, 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 24, 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. As well as developing strategy, the HAHL Board is responsible for the business model required to generate long-term sustainable value and for ensuring that strategy is clearly articulated and implemented throughout the business. This includes overseeing the establishment of transparent policies in relation to raising concerns about misconduct and unethical practices, also observing other statutory duties and responsibilities. A refreshed directors' conflicts procedure was approved by the HAHL Board in November to assist with the disclosure and management of directors' conflicts of interest.	24, 78, 86
Board composition	The HAHL Board consists of the Chairman, CEO, CFO, three 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. The Nominations Committee is responsible for maintaining an appropriate balance of skills, experience, independence and diversity on the HAHL Board. 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 104.	100, 101, 104
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.	98-100
Opportunity and risk	The HAHL Board seeks out opportunities 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.	60, 106, 116
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.	110
Stakeholder relationships and engagement	Central to our strategic framework, shown on page 24, 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 81 provides details of our main stakeholders and some of the engagement that takes place with them at an operational or HAHL Group level.	24, 81

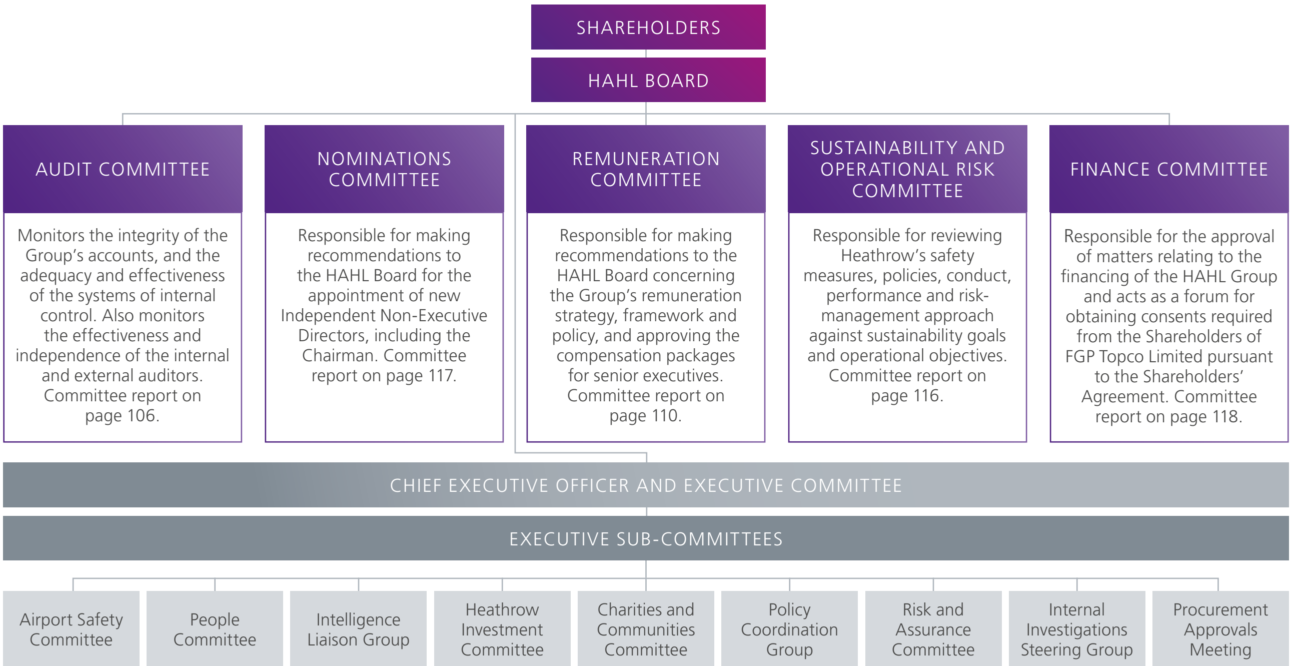
CORPORATE GOVERNANCE

GOVERNANCE STRUCTURE

The HAHL Board determines the long-term strategy, direction, culture 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, Remuneration Committee, and the Sustainability and Operational Risk Committee each provide regular updates on matters discussed at those committees. The Finance Committee submits an annual update of its activities. The papers and minutes from each committee are made 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 HAHL Board Working Group sessions are available to all Board members and their advisors and provide a forum for discussion on particular topics, and an opportunity for directors to discuss complex topics at length ahead of HAHL 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 94.

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 it 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, to 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, Director of Infrastructure Solutions, 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, Director of Communities and Sustainability and the Head of Equality, Diversity and Inclusion.

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. 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. Other members consist of the Head of Security Intelligence Risk and Product, 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.

PROCUREMENT APPROVALS MEETING

Provides appropriate levels of governance with regards to all procurement activities. It is chaired by the Chief Solutions Officer, with responsibility for running the committee delegated to the Director of Procurement.

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 the overall effectiveness of the HAHL Board.

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 nominated and appointed by our Shareholders in accordance with the Shareholders' Agreement, and are therefore not classified as independent. They provide strong experience and constructive challenge, and monitor the performance and delivery of strategy by the HAHL Board.

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 legal, corporate governance and procedural 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, three 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 88 to 93. Nine of the Shareholder Non-Executive 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 Independent Non-Executive 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, finance, retail and technology, 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 states 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 four Independent Non-Executive Directors, including the Chairman, 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.

2022 HAHL BOARD ACTIVITIES

The HAHL Board held eleven scheduled monthly meetings during the year ended 31 December 2022. Two additional meetings were also held to consider regulatory and other issues. HAHL Board members also attended monthly Board Working Group meetings, and a joint strategy session was held in conjunction with the Executive Committee in December. During the year the HAHL Board focused on a number of areas as set out below.

2022 HAHL BOARD ACTIVITIES

SAFETY

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

STRATEGY AND OPERATIONAL

- Build Back Capacity Programme.
- Passenger demand and growth strategy.
- Considered operational and business performance.
- Considered airport readiness.
- Received updates on material communications with regulators and considered the impact of changes in regulation and developing regulation.
- Commercial strategy, including retail, 2023 aero charges and other regulated charges.
- Top 10 KPIs and 2023 Targets.
- People Change Strategy and Colleague Engagement Plan.
- Procurement Strategy.
- Carbon Strategy.

FINANCIAL PERFORMANCE

- Protected and monitored liquidity.
- Reviewed financial performance and forecasts.
- Considered and approved the 2023 Management Business Plan.
- Reviewed and approved results announcements.
- Raised £546m of Class A funding and refinanced the Revolving Credit Facility adding £230m of additional liquidity.

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 2021 Annual Report and Financial Statements.
- 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 2022 Continuity of Service Plan.
- Reviewed and approved Group Policies.

CORPORATE GOVERNANCE

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 2022.

	HAHL Board	Audit Committee	Finance Committee[5]	Nominations Committee	Remuneration Committee	Sustainability and Operational Risk Committee
Total meetings held during the period	**13**	**5**	**3**	**5**	**7**	**4**
Independent Non-Executive Directors						
Lord Paul Deighton	13	–	–	5	–	–
Rt. Hon Ruth Kelly	13	5	3	–	–	–
Joan MacNaughton	12	–	–	–	–	4
Mark Brooker[2]	9	–	–	–	5	2
Non-Executive Shareholder Directors and their alternates						
His Excellency Akbar Al Baker (Ali Bouzarif[1])	13	5	–	4	–	3
Ahmed Al-Hammadi (Deven Karnik[1])	13	–	3	–	6	–
Stuart Baldwin (Kamil Burganov/Jessie Jin[1])	13	–	3	3	4	–
Chris Beale (Sam Coxe/Benjamin Catt[1])	13	–	3	-	-	–
Luke Bugeja (Ignacio Castejon Hernandez/ David Kenny[1])	13	5	3	5	7	4
Maria Casero (Gonzalo Velasco Zabalza/ Ignacio Castejon Hernandez/David Kenny[1])	13	–	–	–	–	–
Olivier Fortin	13	5	3	–	–	4
Ernesto Lopez Mozo (Ignacio Castejon Hernandez/David Kenny[1])	13	5	3	–	6	–
Mike Powell (Tom Kelly/Mary Ann Hogan[1])	13	–	3	5	–	–
David Xie (Jinhong Chen/Chao Wang/ Ben Niu[1])	13	–	3	–	–	–
Executive Directors						
John Holland-Kaye[3]	13	5	2	–	3	2
Javier Echave[4]	13	5	3	–	–	4

1 Alternate Directors.
2 Mark Brooker was appointed to the HAHL Board on 1 April 2022.
3 The CEO is invited to attend meetings of the Audit Committee, Nominations Committee and Remuneration Committee, but is not a member of those committees.
4 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.
5 A number of additional Finance Committee approvals were obtained by email circulation to the members throughout the year, and were subsequently ratified.

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

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 self-evaluation assessments were carried out in November 2021 and December 2022. The reviews were conducted by questionnaire, which sought the Directors' feedback on all aspects of the performance of the HAHL Board and its Committees, 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 HAHL 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 HAHL Board for consideration and recommendations, with follow-up actions debated and adopted as appropriate.

2021 INTERNAL EVALUATION

As reported in the 2021 Annual Report, an internal evaluation was undertaken during November 2021. Overall, there was a majority consensus that the HAHL Board was functioning well and was effective. The main themes reflected the continuing testing environment imposed by the COVID-19 pandemic and included ensuring the airport was ready for the return to growth and responding to proposed changes to regulation for the H7 regulatory period. The HAHL Board continued to hold virtual 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 HAHL Board.
2. To review the number and frequency of HAHL Board meetings and the balance of physical and on-line meetings.
3. To focus on the presentation of information to the HAHL Board to enable more time for discussion and debate.

Actions Taken

1. Additional time has been allocated on the HAHL Board agenda so that the committee chairs can provide a more detailed update of the activities of each of the formal committees.
2. The Chairman and the HAHL Board have reviewed the number, length and frequency of board meetings as part of continuous governance improvements, with a view to potentially reducing the overall number of meetings held annually. Appropriate arrangements have been made to enable 'hybrid' board meetings to take place going forward, allowing for effective physical 'in-the-room' and online participation.
3. Improvements continue to be made to the format, quality and presentation of board materials to ensure that the 'ask' from the HAHL Board is clear, and that sufficient time is available to focus on discussion, and where necessary, decisions at board meetings. Items requiring in-depth discussion, such as regulatory and financial matters, are considered in between boards at Board Working Group sessions, to enable Board Members to familiarise themselves with issues before they come to the HAHL Board.

2022 INTERNAL EVALUATION

An internal evaluation was undertaken during December 2022. The results of the evaluation reflected that there was a majority consensus that the HAHL Board and its committees were functioning well and were effective. The HAHL Board welcomed the gradual return of physical attendance at meetings and acknowledged the significant arrangements that had been put in place to ensure that hybrid meetings could take place successfully. The main themes of the evaluation reflected the challenges faced by the business in terms of building back capacity and influencing the CAA's final proposals for H7 regulation. The key areas identified for increased focus and development during the 2023 financial year are set out below:

Areas of Focus Identified

1. To review the frequency, format and length of HAHL Board, Committee and HAHL Board Working Group meetings to maximise effectiveness, and consider whether there might be other opportunities for Directors to interact with management and the business.
2. To review the information shared with the HAHL Board and its Committees and the processes for disseminating and accessing that information.
3. To invite more external speakers to the HAHL Board to provide a diversity of perspectives on key issues and build upon the directors' existing knowledge, skills and experience.

Overall, the review showed that there were no material shortcomings in relation to the operation of the HAHL Board and its committees. 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 continues to monitor the integrity of financial information for the benefit of our Shareholders."

OTHER COMMITTEE MEMBERS

- Luke Bugeja (represented by his alternate David Kenny)
- 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 2022. The Committee's primary responsibility is to provide support to the HAHL Board by exercising oversight of the integrity of the Group's financial and regulatory reporting, engaging with the external auditor, and overseeing the Group's control and risk management framework. During 2022 Heathrow continued to build back capacity following the unprecedented impacts of the COVID-19 pandemic on the airport and 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.

ROLES AND RESPONSIBILITIES

The Committee is a formal 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.
- 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.
- Monitoring the integrity of the financial statements of the HAHL Group, 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.
- 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.
- Overseeing all press releases relating to external financial results.
- Reviewing Heathrow's procedures for handling allegations from whistleblowers and overseeing the handling of allegations.
- Reviewing the ethics policy and monitoring its application throughout the business, considering any ethical issues which arise as a result of audit findings.
- Reviewing Internal Investigations, approving Internal Investigations Protocol and overseeing the handling of Internal Investigations.
- 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.
- Considering any other topics, as defined by the HAHL Board.

2022 ACTIVITIES

The Committee held five scheduled meetings during the year, with members of senior management required to attend as and when appropriate. Meeting attendance can be found on page 103. An update was provided to the HAHL Board on key issues discussed during each of the Committees' meetings. In addition, the Committee Chair held regular private sessions with the Chief Financial Officer and the senior finance team, the Director of Business Assurance and the external audit team, to ensure that open and informal lines of communication existed, and that any concerns could be raised outside formal meetings.

The Committee's main activities were to:

FINANCIAL REPORTING

- Review and recommend approval of the interim and preliminary results, draft Annual Report and Financial Statements 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 2022 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 2022.

INTERNAL AUDIT

- Approve the scope of the 2023 internal audit plan.
- Review delivery of the 2022 internal audit plan and approved 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 60.
- Review the effectiveness of Heathrow's internal control systems and application of internal financial reporting controls.
- Monitor progress and review the implementation of the Treasury Management System 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 review 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.
- Receive updates on financial and climate related reporting and other corporate governance-related matters.
- Review Heathrow's procedures for the handling of allegations from whistleblowers, including reviewing reports from the Internal Investigations Steering Group, which is overseen by a designated independent Non-Executive Director.

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:

Key judgement and financial reporting matters	Audit Committee review and conclusions
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. The Committee noted that the Groups's Q3 press Release, published on 26 October 2022, was prepared on a basis of going concern with material uncertainty. It also noted that since then, over the fourth quarter, the Group had experienced strong passenger number growth reaching 87% of 2019 fourth quarter levels, and that this growth provided significantly increased certainty over covenant compliance in future periods. The Committee concluded that the Group has sufficient liquidity, with no breach of its covenants, including under the severe but plausible downside scenario, for at least 12 months from the date of these consolidated financial statements and that it was appropriate to prepare the financial statements on a going concern basis with the absence of 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. The process involved discussion with senior project managers to determine projects to be either discontinued or where projects were paused, there was material doubt of when and whether they will be restarted in future or may require significant rework before they can be progressed. The review also included reassessment of previously impaired projects that have since changed activity status, that is paused projects and now or likely to be resuming, to determine if any previously recognised impairment on them needs to be reversed. During the year, the Committee reviewed an impairment and write-off charge of £20 million and an impairment reversal of £14 million, both on assets in the course of construction. The Committee concluded that the total write-off and impairment charge, and impairment reversal recognised 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 £516 million of spend to date as an asset in the course of construction. In reaching this judgement, the Committee has considered two primary factors which are Airports National Policy Statement ('ANPS') which remains in full force and effect, and Board of Directors' continued support of the expansion. The Committee noted that on 26 May 2022 the Department for Transport published a policy paper, 'Flightpath to the future: a strategic framework for the aviation sector', in which it reaffirmed that the ANPS continues to have full effect and that the UK Government remains supportive of airport expansion where it can be delivered within environmental obligations. The Committee further noted that, although the 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 rework, noting that Management recognised an impairment of £10 million 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, 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.

Key judgement and financial reporting matters	Audit Committee review and conclusions
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 Financial Statements. 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 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.
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.	The Committee reviewed Management's assessment of whether future taxable profits and reversible taxable temporary differences support the recoverability of the deferred tax assets. The Committee agreed that deferred tax assets as at 31 December 2022 are recoverable, and no impairment was required at this time and that appropriate disclosures should be included in the financial statements.
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 2022 were based on reasonable methodology and within an acceptable range. The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note 18. In the wake of the Mini Budget and implications for LDI portfolios, the scheme has been reassessed to ensure collateral buffers remain prudent. Further, the company and trustees of the BAA DB scheme have agreed to enter into dialogue should the funded status close two consecutive quarters commencing from January 2023, below 95%.
Hedge accounting 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.	The Committee sought quarterly updates on management's assessments, including justification of the key assumptions which support the Cash Flow Hedge Reserve.
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 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.

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
- Mark Brooker
- Chris Beale

INTRODUCTION

As Chair of the Remuneration Committee (the 'Committee') I am pleased to present the Committee's report for the year ended 31 December 2022. 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, which were reviewed and approved in February 2022.

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 second year the report also includes the Group's Ethnicity Pay Gap.

ROLES AND RESPONSIBILITIES

The Committee is a formal 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 contractual terms for the members of the Executive Committee and independent Non-Executive Directors.
- The compensation packages of the members of the Executive Committee including salary, bonus, pensions and other incentives.
- The design and terms of all annual bonus plans.
- The design and terms of all long-term incentive plans.
- The approval of the annual salary review of all employees in non-negotiated and negotiated grades (including budget level).
- The design and strategy for Heathrow's pension plans.

2022 ACTIVITIES

The Committee held four scheduled meetings during the year as well as three additional meetings to review the CEO's remuneration and Non-Executive Directors' fees, review the 2022 Cost of Living Pay Deal and participate in additional pensions training. Meeting attendance can be found on page 103. Its main activities in the meetings were to:

- Approve outcome and payment of the 2021 annual bonus plans.
- Approve the design, targets and launch of the 2022 annual bonus plans.
- Approve the 2022 Annual Salary Review for management and the Executive Committee.
- Approve the fees for the Non-Executive Directors.
- Approve the parameters for the 2022 Cost of Living Pay Deal.
- Approve the launch of the 2022 Share in Success Saver and Grant long-term incentive plans.
- Approve the 2019 Share in Success Saver and Grant outcome and payment of the guaranteed return to Saver participants.
- Review performance updates for all active incentive plans.
- Review the pension strategy.
- Review Benefits and Recognition update.
- Approve the parameters for the 2023 Pay Deal.
- Approve 2023 Annual Salary Review budget.
- Approve 2023 annual bonus design.
- Approve changes to pay during Family Leave.
- Review Gender and Ethnicity Pay Gap data and Report.
- Approve retention bonus payments.
- The Committee were provided with updates on the following topics:
  - Plans to support Resourcing Ramp up.
  - Colleague Engagement.
  - Health and Wellbeing approach.
  - New Leadership Capability training.
  - Executive Succession plan.
  - Conclusion of the Industrial Relations Pay Deal.
  - 2022 People Strategy performance.
  - 2023 Key People Priorities.
  - ED&I Strategy.
- Additionally, a pensions training session was hosted by external consultants, along with a market review and trends session.

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, an ESG Carbon performance metric is included in all 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:

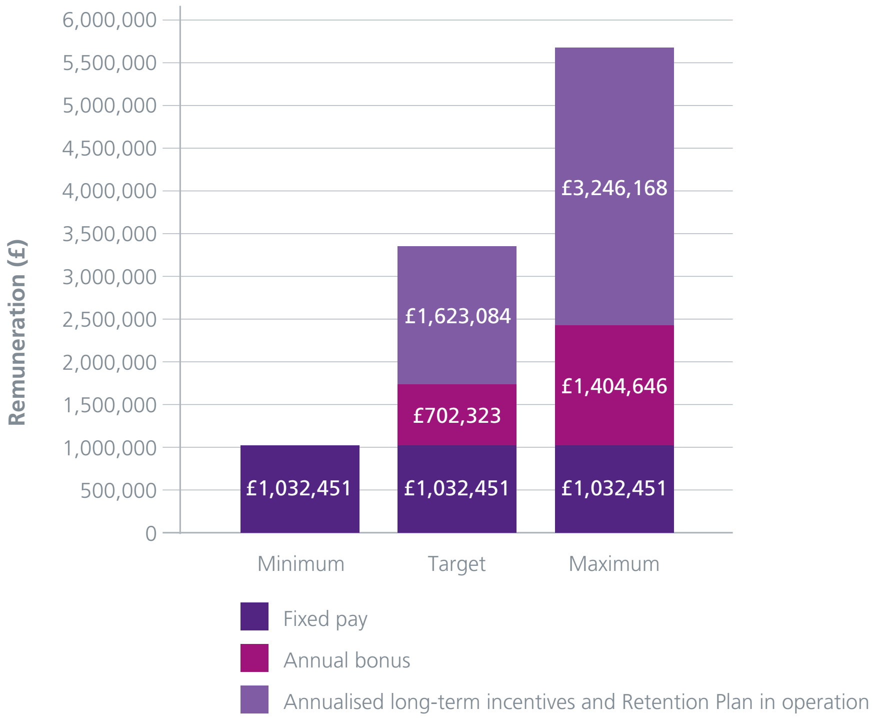
Component and purpose in supporting business strategy	Executive committee[1]	Other management colleagues	Negotiated grade colleagues
Base salary To secure and retain quality individuals to deliver Heathrow's strategy.	Base salaries are typically reviewed annually, and set taking into account: • The role's 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.	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 assessment, 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, private health assessment, 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 other colleagues through a Defined Contribution Pension Plan. Colleague contribution rates are either 3%, 5% and 8% of base salary, coupled 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 other colleagues through a Defined Contribution Pension Plan. Colleague contribution rates are either 3%, 5% and 8% of base salary, coupled 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 other colleagues through a Defined Contribution Pension Plan. Colleague contribution rates are either 3%, 5% and 8% of base salary, coupled 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 (60% weighting), Gross Operating Expenses (20% weighting) and a Safety Close Call Reporting metric (20% weighting). Subject to satisfying individual and financial performance criteria, the maximum incentive opportunity is 180% of base salary for the Chief Executive Officer. This is paid in March of the following year. The 2021 Heathrow Bonus Plan, which was paid in March 2022, did not include an individual performance multiplier which had the potential to increase or reduce an individual's bonus based on their individual performance. An individual performance multiplier was reintroduced in the 2022 Heathrow Bonus Plan.	Management colleagues participate in the Heathrow Bonus Plan. The plan is measured against targets for EBITDA (60% weighting), Gross Operating Expenses (20% weighting) and a Safety Close Call Reporting metric (20% weighting). Eligibility for annual bonus and target bonus opportunity is determined by an individual's organisational band e.g., target value of 10% of salary. Subject to satisfying individual and financial performance criteria, the maximum bonus opportunity for participants is 200% of target e.g., 20% of salary. This is paid in March of the following year. The 2021 Heathrow Bonus Plan, which was paid in March 2022, did not include an individual performance multiplier which had the potential to increase or reduce an individual's bonus based on their individual performance. An individual performance multiplier was reintroduced in the 2022 Heathrow Bonus Plan.	Frontline colleagues participate in the Airport Profit Bonus with payment determined by EBITDA performance.

[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 2021 and 2022 SIS Grants are measured against EBITDA (55% weighting), Service (15% weighting), Carbon: reducing carbon emissions at the airport both "on the ground" and "in the air" (15% weighting) and Engagement (15% weighting). 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 Grant Plans in operation: • 2021 SIS Grant: performance is measured over 2021 to 2023; payable in August 2024. • 2022 SIS Grant: performance is measured over 2022 to 2024; payable in August 2025. Each year, the Committee review and 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 were awarded one off incentive grants, which incentivised the delivery of metrics relating to ensuring the survival of our business through the pandemic and subsequent business recovery in 2021 and 2022, payable in March 2023. The Chief Executive Officer was awarded a one off Retention Plan subject to being employed on 31 March 2023 and the achievement of objectives relating to business recovery.	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 2021 and 2022 SIS Grants are measured against EBITDA (55% weighting), Service (15% weighting), Carbon: reducing carbon emissions at the airport both "on the ground" and "in the air" (15% weighting) and Engagement (15% weighting). 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 Grant Plans in operation: • 2021 SIS Grant: performance is measured over 2021 to 2023; payable in August 2024. • 2022 SIS Grant: performance is measured over 2022 to 2024; payable in August 2025. Each year, the Committee review and can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards. 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: • 2021 SIS Saver: performance is measured over 2021 to 2023; payable in July 2024. • 2022 SIS Saver: performance is measured over 2022 to 2024; payable in November 2025. To support the recovery of Heathrow from the impact of COVID-19, all management colleagues were awarded one off incentive grants, which incentivised the delivery of metrics relating to ensuring the survival of our business through the pandemic and subsequent business recovery in 2021 and 2022, payable in March 2023.	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: • 2021 SIS Saver: performance is measured over 2021 to 2023; payable in November 2024. • 2022 SIS Saver: performance is measured over 2022 to 2024; payable in October 2025. To support the recovery of Heathrow from the impact of COVID-19, the wider colleague population were awarded one off incentive grants, which incentivised the delivery of metrics relating to ensuring the survival of our business through the pandemic and subsequent business recovery in 2021 and 2022, payable in March 2023.

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 2022).

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

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

[1] The SIS Grant was not launched in 2020 due to the impact of COVID-19. The Chief Executive Officer announced his intention to step down on 2 February 2023 and will not be eligible for the 2022 SIS Grant.

CHIEF EXECUTIVE OFFICER REMUNERATION

The table below presents the remuneration figures for the Chief Executive Officer for the years ended 31 December 2021 and 31 December 2022:

	Fixed Pay (£)				Performance Pay (£)			
2022	Salary	Benefits[1]	Pension	Sub-total	Annual bonus[2]	LTIP[3]	Sub-total	Total
Chief Executive Officer								
John Holland-Kaye	775,961	18,034	232,788	1,026,783	1,317,277	2,914,000	4,231,278	5,258,060

[1] Benefits includes cash travel and taxable benefits.
[2] Accrued annual bonus, payable in March 2023.
[3] Expected one off incentive grant and Retention Plan, to incentivise the delivery of metrics relating to ensuring the survival of our business through the pandemic and subsequent business recovery in 2021 and 2022, payable in March 2023 and subject to being employed on 31 March 2023.

	Fixed Pay (£)				Performance Pay (£)			
2021	Salary	Benefits[1]	Pension	Sub-total	Annual bonus[2]	LTIP[3]	Sub-total	Total
Chief Executive Officer								
John Holland-Kaye	753,970	21,922	226,191	1,002,083	531,549	-	531,549	1,533,632

[1] Benefits includes cash travel and taxable benefits.
[2] Actual 2021 annual bonus. Prior year annual bonus has been restated to reflect the actual payment made.
[3] Actual 2019 SIS Grant was nil due to company performance targets not being achieved.

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 the company's sustainability goals and operational objectives."

OTHER COMMITTEE MEMBERS

- John Holland-Kaye
- Luke Bugeja (represented by his alternate David Kenny)
- Olivier Fortin
- His Excellency Akbar Al-Baker (represented by his alternate Ali Bouzarif)
- Mark Brooker

INTRODUCTION

I am pleased to present the Sustainability and Operational Risk Committee ('SORC') report for the year ended 31 December 2022. The SORC continued to perform a valuable role reviewing and constructively challenging Heathrow's safety measures, policies, conduct, performance and risk-management approach against sustainability goals and operational objectives. This year the SORC asked for an extensive review of safety culture at the airport covering Heathrow staff and other operators, including airlines, ground handlers and delivery partners. The SORC made recommendations to the HAHL Board on actions to enhance performance across all of them. The Committee also considered safety and security in the context of the aerodrome and the Heathrow Express rail service, as well as fire safety and occupational health and safety in general. Other areas of focus included Heathrow's overall operational resilience and sustainability plans, and Heathrow's on-going cyber security threat.

ROLES AND RESPONSIBILITIES

The SORC is a formal 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.

2022 ACTIVITIES

The SORC held four scheduled meetings during the year and meeting attendance can be found on page 103. An update was provided to the Board on key issues discussed during each of the Committee's meetings. The Committee's main activities were to:

SAFETY

- Review and advise on safety performance and the actions being taken to ensure compliance, to improve fire, health and safety standards and to strengthen Heathrow's safety culture.
- Review incidents, using the learnings to develop and promote best-in-class safety performance.
- Consider how best to sustain and improve 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 and Sustainability.

SECURITY

- Review and advise on cyber security strategy, cyber incidents, cyber insurance risks and mitigation initiatives.
- Review and advise on aerodrome security threats, improvements to security, and 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 the 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 Heathrow's 2022 Top 10 KPI Targets.

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 2022. 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 formal 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.

2022 ACTIVITIES

The Nominations Committee met five times during the year. Meeting attendance can be found on page 103. Amongst other things, the Committee recommended the appointment of Mark Brooker as an additional independent Non-Executive Director to the HAHL Board, who was appointed in April 2022.

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 2022. 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. The Committee's primary focus has been on ensuring the HAHL Group maintained sufficient liquidity at all levels of the capital structure at all times, and its financial covenants were protected in a high inflation and rising interest rates environment. The HAHL Group has continued to navigate the recovery from COVID-19, retaining access to public and private markets with the key positive execution of an upsized ESG ready RCF, which closed in the midst of the "mini budget" market turmoil and the uncertain CAA outcome. The ability to successfully conclude this transaction gives confidence as to the strength and depth of banking support and the resilience of the HAHL credit story as we head in to 2023.

ROLES AND RESPONSIBILITIES

The Committee is a formal 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 market 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 the 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.

2022 ACTIVITIES

The Committee held three meetings during the year and details of meeting attendance can be found on page 103. A number of finance approvals were also obtained by email circulation and subsequently ratified at meetings. The Committee's main activities were to review and/or approve:

- Debt funding for Heathrow, including bond issuances, credit facilities and private placements and refinancing the revolving credit facility.
- The Heathrow (SP) Limited and Heathrow Finance plc 2022 Investor Reports.
- The base prospectus and supplements thereto for Heathrow Funding Limited.
- Early accretion paydown on inflation-linked swaps.
- Repayments of capitalised interest in addition to scheduled principal payments on any debt that may be owing under Heathrow's debt financing arrangements.
- Cash Upstreaming from the SP Group to Heathrow Finance.
- Heathrow's Payment and Revenue Policy.
- Heathrow's Resourcing and Cost Protection Plan.
- Heathrow's weekly Financing Dashboard.

HEATHROW (SP) LIMITED
DIRECTORS' REPORT

The Directors present their Annual Report and audited financial statements for the Group for the year ended 31 December 2022.

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 profit after taxation for the financial year amounted to £114 million (2021: £1,613 million loss).

No dividends were paid to Heathrow Finance plc during the year (2021: nil).

The statutory results for the year are set out on page 136.

The financial statements have been prepared on a going concern basis as detailed in the going concern statement on page 141 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
– Resigned 31 March 2022

Martin Bailey
– Appointed 1 April 2022

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 155.

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 97.

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 81.

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 81.

STREAMLINED ENERGY AND CARBON REPORTING

The Group's reporting in relation to Streamlined Energy and Carbon Reporting requirements can be found in the Strategic Report on page 38.

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 2022 financial year and at the date of approving the Annual Report and Financial Statements.

Matters disclosed in strategic report	Page
Environmental matters	
• Sustainable growth	32
• Business resilience	62
• Corporate social responsibility	62
• Streamlined energy and carbon reporting	38
Colleagues	
• Colleague policies	45, 120
• Health and safety	62
Anti-corruption and bribery policy	101
Social matters – charitable donations	44
Security of the airport and passengers	62
Leadership and governance	97
Description of our principal risks	
• Business	62
• Financial management	108
Description of our business model	14
Non-financial performance indicators	223
Research and development and innovation	34

AUDITOR

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed 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 2023
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 and Company 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 2023

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 Consolidated 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 2022 and of the group's profit 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 as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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, which comprise: the Consolidated and Company statement of financial position as at 31 December 2022; 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.

OUR AUDIT APPROACH

OVERVIEW

Audit scope

- We performed full scope audit procedures over the company and three individually significant components in the group.

Key audit matters

- Carrying value of Expansion asset 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)
- Going concern basis of preparation (group and parent)

Materiality

- Overall group materiality: £47.7m (2021: £35m) based on taking into consideration a number of relevant benchmarks and engagement leader judgement resulting in 2.8% of adjusted EBITDA being used (2021: based on 2.8% of a 5 year average adjusted EBITDA).
- Overall company materiality: £91.9m (2021: £102m) based on 1% of total assets.
- Performance materiality: £35.7m (2021: £30m) (group) and £68.9m (2021: £76.64m) (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.

This is not a complete list of all risks identified by our audit.

Going concern basis of preparation is presented as a key audit matter for the first time this year, although we referenced this separately in our opinion last year when we reported on the existence of a material uncertainty. Valuation of retirement benefit obligations and assets and Impact of COVID-19, which were key audit matters last year, are no longer included because the extent of audit effort required to address the valuation of retirement benefit obligations and assets was less than the prior year and the impact of COVID-19 is no longer a relevant KAM given the business has shown strong signs of recovery. Otherwise, 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 £516m 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. 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 has been limited progress on the project over the last couple of years. As a result, there is a risk of impairment 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 the risk of impairment in relation to the Expansion asset: • Assessed the design and implementation of key controls relating to Property, plant and equipment (including Assets in the course of construction); • we challenged management to provide evidence to demonstrate the technical feasibility, commercial viability and financeability (investability) of the project, reflecting the developments that have evolved since the onset of the pandemic. We also challenged management to consider the current 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; • we challenged management by identifying both corroborative and contradictory evidence relating to the impairment risk for expansion. This included assessing UK government policy, the view of the Civil Aviation Authority ('CAA') and commitment from the Board and Shareholders to the project; Together with our climate change experts, we evaluated the consistency of the available evidence with broader 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 of the Annual Report as the base case for management's 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 not identified any evidence of impairment triggering events, and therefore concur with management's view that the Expansion asset is not impaired at 31 December 2022.

Key audit matter	How our audit addressed the key audit matter
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 17 in the financial statements. As at 31 December 2022, the group held derivative assets of £1,146m and derivative liabilities of £2,476m on the balance sheet. These are held to mitigate interest rate and foreign exchange risk arising on debts of £2.3bn. Included in these derivative balances were inflation linked swaps totalling £146m assets and £1,241m liabilities. 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 valuations involved, we identified a significant risk that the fair value of inflation linked swaps may be misstated. The risk is mainly driven by: • The valuation process (being manual in nature) of valuation differences between the consideration paid or received and the system derived fair value on inception or restructuring ('day-1 fair value'); and • the estimation of the valuation of credit risk of the swaps (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 specialists, 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 2022; • recalculated and assessed the accounting treatment for the day-1 fair value of derivatives in line with IFRS9 - 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 than the currency swaps 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 of the instruments; • tested the estimation of the credit risk 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 material exceptions. We consider management's derivative fair value disclosures in the financial statements to be adequate.
Valuation of investment properties - commercial car parks (group)	
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 £2,230m as at 31 December 2022, a decrease of £67m from 31 December 2021. 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 2022. 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 assumptions regarding revenue which are in line with those used within their going concern and goodwill impairment assessments. Other key assumptions include long-term passenger forecasts, growth rate and operating cost savings.	We engaged our Real Estate Valuation experts to perform specific procedures to assist us in our evaluation of whether the assumptions and methodology used in valuing the investment properties (commercial car parks) were 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 valuation expert and management to understand changes to the valuation methodology and year-on-year movements 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 changes to demand for car park usage and the need for increased future capital expenditure to broaden the electric charging infrastructure supporting 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 material exceptions. We consider the disclosures in the financial statements to be adequate.

Key audit matter	How our audit addressed the key audit matter
Going concern basis of preparation (group and parent)	
Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies in the financial statements. In the 2021 Annual Report and the 2022 quarterly press releases, the Group and Company prepared its financial statements on a basis of going concern with material uncertainty. Since then, the Group has experienced strong passenger number growth in Q4 2022, reaching 87% of Q4 2019 levels. It is with this growth and the significantly increased certainly that it provided over debt covenant compliance in future periods that the Directors made the decision to prepare the 2022 Annual Report on a going concern basis with the absence of material uncertainty. In assessing the going concern position, the Directors have considered the cash flow, liquidity and debt covenant compliance over the next 12 months and also considered the period beyond 12 months to December 2024.	We, with the support of our Business Recovery Services experts, we performed the following audit procedures: • Assessed the design and implementation of key controls relating to forecasting; • assessed management's forecasts including consideration of the impact of COVID-19 on cash flows; • reviewed the group's compliance with bank covenants; • ensured the forecasts and calculations are mathematically accurate; • assessed the reasonableness of assumptions used in management's base case forecasts, and challenged the judgements underpinning those forecasts, for example by obtaining independent third party evidence of market forecasts for passenger forecast of 67.2 million for 2023 and assessing the extent to which these assumptions are consistent with those used to support other financial statement estimates; • assessed the reasonableness of management's severe but plausible downside case, and challenged the judgements regarding the low end of Heathrow's passenger forecast of 57.7 million for 2023; • assessed the reverse stress test performed by management to show the breakeven level of passengers; • tested the underlying data in management's going concern model; and • assessed the adequacy of disclosures in relation to going concern in the financial statements as well as in the front half of the Annual Reports. The results of our procedures above did not identify any material exceptions. We consider the disclosures in the financial statements to be adequate and we concur with management's view that the Group and Company's 2022 financial statements are prepared on the basis of going concern with the absence of material uncertainty.

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; one non trading entity which holds listed debt on the International 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 of 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.

THE IMPACT OF CLIMATE RISK ON OUR AUDIT

As part of our audit we made enquiries of management to understand the process management and management's climate expert adopted to assess the extent of potential impact of climate risk on the financial statements and support the disclosure made within the "Task Force for Climate Related Financial Disclosures (TCFD)" section where 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', the impact of its own operations on the environment and ways to reduce the group's impact as it continues to work towards its own net zero pathway to 2050.

In addition to enquiries with management, we also challenged management's climate risk assessment by:

- Reading external reporting issued by the Heathrow group of companies, including the Heathrow 2.0 Sustainability Strategy report and Heathrow Net Zero Carbon Strategy report, reading the entity's website and making management aware of any internal inconsistencies in their climate reporting; and
- challenging the consistency of management's climate impact assessment with internal climate plans and board papers, including whether the time horizons management have used take account of all relevant aspects of climate change such as transition risks.

The Directors have made commitments to Heathrow's Net Zero Plan to cut emissions 'in the air' and 'on the ground' in its target of net zero carbon emissions by 2050.

Management considers the impact of climate risk does give rise to a potentially significant financial statement impact as climate change could materially impact future passenger demand either due to future government or regulator intervention, or an increase in the cost of aviation due to taxation or levies, or as a result of a change in consumer sentiment to aviation.

Using our knowledge of the business and with assistance from our internal climate experts we evaluated management's risk assessment, its estimates as set out in the accounting policies of the financial statements and resulting disclosures, where significant. The key areas of the financial statements where this has been impacted relates to the carrying value of property, plant and equipment (including the Expansion asset under construction), the fair valuation of investment properties and the recoverability of deferred tax assets.

To respond to the audit risks identified in these areas we tailored our audit approach to address these, in particular, we:

- Challenged management on how the impact of climate commitments made by the Group and Company would impact the assumptions within the discounted cash flows prepared by management that are used in the underlying analyses; and
- challenged whether the impact of climate risk in the Directors' assessments were consistent with management's climate impact assessment.

Where climate risk relates to a key audit matter our audit response is given in the key audit matters section of our audit report. We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Task Force on Climate-related Financial Disclosures ('TCFD') section) within the Annual Report with the financial statements and our knowledge obtained from our audit. This included:

- Understanding which models management have used in the TCFD scenario analysis and considering if the assumptions in the models are consistent with the assumptions used elsewhere in the financial statements; and
- challenging the proportionality of the disclosures given in the narrative reporting within the other information to the impact disclosed within the financial statements.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2022.

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	£47.7m (2021: £35m).	£91.9m (2021: £102m).
How we determined it	Materiality has been based on taking into consideration a number of relevant benchmarks and engagement leader judgement resulting in 2.8% of adjusted EBITDA being used.	1% of total assets
Rationale for benchmark applied	We have determined the most appropriate benchmark in the context of the nature of the organisation, which has a significant infrastructure base, with reference to various income statement and asset benchmarks. We also considered the prior year benchmark which was a 5 year average adjusted EBITDA, adopted due to the impact of COVID-19. As the business has shown strong signs of recovery from COVID-19, this has resulted in the use of the 2022 adjusted EBITDA as the applicable benchmark based on taking into consideration a number of relevant benchmarks and engagement leader judgement resulting in 2.8% of adjusted EBITDA being used.	We have applied this benchmark of total assets, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be 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 £35m. 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% (2021: 75%) of overall materiality, amounting to £35.7m (2021: £30m) for the group financial statements and £68.9m (2021: £76.64m) 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 £2.3m (group audit) (2021: £1.75m) and £4.6m (company audit) (2021: £5.1m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 2022 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.

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 those 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;
- reading the Board minutes to identify any issues which could indicate non-compliance with laws and regulations;
- challenging assumptions and judgements made by management in their 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 assets 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; and
- testing all material consolidation adjustments to ensure these were appropriate in nature and magnitude.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT (CONTINUED)

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.

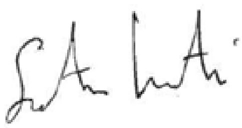
OTHER REQUIRED REPORTING

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 2023

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2022

	Note	Year ended 31 December 2022 Before certain re-measurements[1] £m	Certain re-measurements[2] £m	Exceptional items[3] £m	Total £m	Year ended 31 December 2021 Before certain re-measurements[1] £m	Certain re-measurements[2] £m	Exceptional items[3] £m	Total £m
Revenue	1	**2,913**	**-**	**-**	**2,913**	1,214	-	-	1,214
Operating costs[4]	2	**(1,999)**	**-**	**14**	**(1,985)**	(1,627)	-	(31)	(1,658)
Other operating items									
Fair value gain/(loss) on investment properties	9	**-**	**(69)**	**-**	**(69)**	-	174	-	174
Operating profit/ (loss)		**914**	**(69)**	**14**	**859**	(413)	174	(31)	(270)
Financing									
Finance income	4	**34**	**-**	**-**	**34**	7	-	-	7
Finance costs	4	**(1,632)**	**908**	**-**	**(724)**	(864)	(665)	-	(1,529)
Net finance costs		**(1,598)**	**908**	**-**	**(690)**	(857)	(665)	-	(1,522)
(Loss)/profit before tax		**(684)**	**839**	**14**	**169**	(1,270)	(491)	(31)	(1,792)
Tax credit/(charge)	5	**119**	**(200)**	**-**	**(81)**	254	139	-	393
Change in tax rate	5	**-**	**26**	**-**	**26**	-	(214)	-	(214)
Taxation credit/ (charge)		**119**	**(174)**	**-**	**(55)**	254	(75)	-	179
(Loss)/profit for the year[5]		**(565)**	**665**	**14**	**114**	(1,016)	(566)	(31)	(1,613)

The notes on pages 162 to 213 form part of these financial statements.

[1] Amounts stated before certain remeasurements 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.
[3] Exceptional items are one-off material or unusual non-recurring impairment reversals relating to previously raised impairment charges.
[4] Included within Operating costs is a £4 million credit (2021: £3 million charge) for the impairment of trade receivables.
[5] Attributable to owners of the parent.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Note	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) for the year		**114**	(1,613)
Items that will not be subsequently reclassified to the consolidated income statement			
Actuarial (loss)/gain on pensions			
(Loss)/gain on plan assets[1]	22	**(1,582)**	141
Decrease in scheme liabilities[1]	22	**1,239**	125
Change in tax rate		**-**	(1)
Items that may be subsequently reclassified to the consolidated income statement			
Cash flow hedges net of tax			
Gains taken to equity[1]	22	**11**	18
Transfer to net finance costs[1]	22	**59**	38
Change in tax rate		**-**	12
Change in tax rate on other opening balances		**-**	(4)
Other comprehensive (expense)/income for the year		**(273)**	329
Total comprehensive expense for the year[2]		**(159)**	(1,284)

The notes on pages 162 to 213 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 2022

	Note	31 December 2022 £m	31 December 2021 £m
Assets			
Non-current assets			
Property, plant and equipment	*7*	**10,380**	10,654
Right of use assets	*8*	**279**	270
Investment properties	*9*	**2,230**	2,297
Intangible assets	*10*	**194**	156
Retirement benefit surplus	*18*	**-**	343
Derivative financial instruments	*15*	**1,145**	421
Trade and other receivables	*12*	**29**	23
		14,257	14,164
Current assets			
Inventories	*11*	**16**	13
Trade and other receivables	*12*	**270**	201
Current income tax assets		**4**	3
Derivative financial instruments	*15*	**1**	25
Term deposits	*13*	**1,548**	2,410
Cash and cash equivalents	*13*	**285**	216
		2,124	2,868
Total assets		**16,381**	17,032
Liabilities			
Non-current liabilities			
Borrowings	*14*	**(17,456)**	(18,341)
Derivative financial instruments	*15*	**(2,436)**	(2,225)
Deferred income tax liabilities	*17*	**(671)**	(706)
Lease liabilities	*8*	**(341)**	(331)
Retirement benefit obligations	*18*	**(126)**	(30)
Provisions	*19*	**(1)**	(1)
Trade and other payables	*20*	**(4)**	(3)
		(21,035)	(21,637)
Current liabilities			
Borrowings	*14*	**(997)**	(1,008)
Derivative financial instruments	*15*	**(40)**	(19)
Lease liabilities	*8*	**(37)**	(40)
Provisions	*19*	**(2)**	(4)
Trade and other payables	*20*	**(470)**	(365)
		(1,546)	(1,436)
Total liabilities		**(22,581)**	(23,073)
Net liabilities		**(6,200)**	(6,041)
Equity			
Capital and reserves			
Share capital	*21*	**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Cash flow hedge reserve		**(35)**	(105)
Accumulated losses		**(2,917)**	(2,688)
Total shareholders' equity		**(6,200)**	(6,041)

The notes on pages 162 to 213 form part of these financial statements. These financial statements of Heathrow (SP) Limited (Company registration number: 06458621) on page 136 to 213 were approved by the Board of Directors and authorised for issue on 22 February 2023.

They were signed on its behalf by:

JAVIER ECHAVE
DIRECTOR

MARTIN BAILEY
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

		Attributable to owners of the Company					
	Note	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Accumulated losses £m	Total £m
1 January 2021		11	499	(3,758)	(173)	(1,336)	(4,757)
Comprehensive income:							
Loss for the year		-	-	-	-	(1,613)	(1,613)
Other comprehensive income:							
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							
Gain on plan assets	*22*	-	-	-	-	141	141
Increase in scheme liabilities	*22*	-	-	-	-	125	125
Change in tax rate		-	-	-	-	(1)	(1)
Change in tax rate on other opening balances		-	-	-	-	(4)	(4)
Total comprehensive expense		-	-	-	68	(1,352)	(1,284)
31 December 2021		11	499	(3,758)	(105)	(2,688)	(6,041)
Comprehensive income:							
Profit for the year		**-**	**-**	**-**	-	**114**	**114**
Other comprehensive income/(expense):							
Fair value gains/(losses) on:	*22*						
Cash flow hedges net of tax		-	-	-	**70**	-	**70**
Actuarial gain/(loss) on pensions net of tax	*22*						
Loss on plan assets	*22*	-	-	-	-	**(1,582)**	**(1,582)**
Decrease in scheme liabilities		-	-	-	-	**1,239**	**1,239**
Total comprehensive income/(expense)		-	-	-	**70**	**(229)**	**(159)**
31 December 2022		**11**	**499**	**(3,758)**	**(35)**	**(2,917)**	**(6,200)**

The notes on pages 162 to 213 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

	Note	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Cash flows from operating activities			
Cash generated from operations [1]	24	**1,719**	613
Taxation:			
Corporation tax (paid)		**(1)**	(1)
Group relief received		**1**	-
Net cash generated from operating activities		**1,719**	612
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(440)**	(248)
Investment properties		**(2)**	(4)
Disposal of:			
Property, plant and equipment		**-**	14
Increase in term deposits [2]		**862**	826
Interest received		**15**	7
Net cash generated from investing activities		**435**	595
Cash flows from financing activities			
Proceeds from issuance of bonds		**196**	1,582
Repayment of bonds		**(732)**	(1,119)
Repayment of facilities and other financing items		**(1)**	(1,590)
Issuance of term notes		**350**	50
(Decrease)/increase in amount owed to Heathrow Finance plc [3]		**(932)**	166
Interest [4]		**(389)**	(258)
Settlement of accretion on index-linked swaps		**(44)**	(69)
Early settlement of accretion on index-linked swaps [5]		**(490)**	-
Payment of lease liabilities [1]		**(43)**	(33)
Net cash used in financing activities		**(2,085)**	(1,271)
Net increase/(decrease) in cash and cash equivalents		**69**	(64)
Cash and cash equivalents at beginning of year		**216**	280
Cash and cash equivalents at end of year	13	**285**	216

The notes on pages 162 to 213 form part of these financial statements.

1 Cash generated from operations and payment of lease liabilities in 2021 are impacted by the unwind of the prepayments made by the Group in December 2020 to manage banking covenant ratios.
2 Term deposits with an original maturity over three months are invested at Heathrow Airport Limited Term deposits with an original maturity of over three months are invested by Heathrow Airport Limited.
3 The change in amounts owed to Heathrow Finance plc includes £67 million (2021: £166 million) of interest capitalised on the Debenture.
4 Includes £17 million of lease interest paid (2021: £16 million), £110 million of interest paid under the Debenture payable to Heathrow Finance plc (2021: nil) and £67 million interest capitalised on Debenture (2021: £166 million).
5 The Group has elected to early pay £490 million of accrued accretion, which were due to be settled within the next 4 years in line with the liquidity profile assessment of the Group.

ACCOUNTING POLICIES

for the year ended 31 December 2022

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 and with the requirements of the Companies Act 2006 as applicable to companies reporting under those 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 2022.

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.

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 reversals of impairment charges previously recognised on projects impacted by COVID-19 in years 2020 and 2021, which are not expected to reoccur in future years.

GOING CONCERN

The Directors have prepared the financial information presented within these consolidated financial statements on a going concern basis as they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

BACKGROUND

Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026, without the CAA having made a final decision on charges. Further details of the latest developments are included on page 17 of these consolidated financial statements. The CAA's Final Proposals, published on 28 June 2022, provide an average H7 tariff of £24.14 in 2020 prices, with a final decision on the H7 settlement expected later in 2023. Until the H7 settlement is finalised, the CAA has put in place an interim tariff (the "2023 Interim Tariff") from 1 January 2023 of £31.57 in nominal terms. In arriving at the average H7 tariff in its Final Proposals, the CAA has considered a set of assumptions such as higher passenger numbers, lower operating costs and higher commercial revenues versus those forecast by the Group, which leads to a lower tariff than the Group thinks is appropriate. Whilst the H7 Final Proposals contain proposals for a new traffic risk sharing mechanism and other mechanisms to deal with asymmetric risk and cost uncertainty, they would not fully protect against lost cash flows and would lead to partial recovery of lost revenue over time. The combination of lower traffic and regulatory uncertainty led to Standard & Poor's placing the Group's Class A and Class B debt on CreditWatch negative during Q1 2022.

GOING CONCERN CONTINUED

This critical relationship between H7 prices and forecast passenger numbers, as well as the potential resultant impact to liquidity and debt covenant compliance have been considered in assessing the appropriateness of preparing these consolidated financial statements on a going concern basis.

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

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

BASE CASE

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

- Forecast revenue and operating cash flows from the underlying operations, based on 2023 and 2024 traffic forecasts of 67.2 million and 69.8 million respectively.
- Forecast level of capital expenditure based on H7 plans proposed by the CAA.
- The overall Group liquidity position including cash resources, the remaining committed facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

BASE CASE PASSENGER FORECAST

In modelling passenger number recovery from COVID-19, there remains a degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Nevertheless, passenger numbers have increased significantly through 2022; Q1 passenger numbers were at 54% of 2019 levels, compared with 87% in Q4. In total, 61.6 million passengers travelled through the airport in 2022, compared with 19.4 million in 2021. Despite a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong. Management's base case uses passenger forecasts of 67.2 million for 2023, equating to 83% of 2019 passenger levels.

BASE CASE TARIFFS

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

BASE CASE CASH FLOW AND LIQUIDITY

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('Heathrow SP') and Heathrow Finance plc ('Heathrow Finance'). Despite a continued challenging market, confidence and support for the Group's credit enabled Heathrow to raise £0.55 billion of debt in the 12 months to 31 December 2022 with £410 million of class A private placement transactions and a CHF165 million Class A public transaction being successfully executed. The Group also refinanced its Revolving Credit Facility in Q4, increasing to £1.39 billion and extending the maturity to 2026. Consequently, Heathrow SP held cash of £1.8 billion as at 31 December 2022. Total debt maturity within Heathrow SP for the next 12 months from 31 December 2022 is £0.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of £3.0bn available at 31 December 2022. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs well into 2025. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

SEVERE BUT PLAUSIBLE DOWNSIDE CASE

The Directors are required to consider severe but plausible downside scenarios in the preparation of these consolidated financial statements. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers, particularly in a highly inflationary economic environment impacting the disposal income of passengers, and the resultant impact of the CAA's H7 Final Proposals on cash flow generation, liquidity and debt covenant compliance.

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

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

Whilst deemed unlikely, the Directors have also assumed that the Group would be unable to access debt markets for any new funding, due to the risk of credit downgrade in this severe but plausible downside scenario. Under this scenario, the Group has sufficient liquidity to meet all forecast cash flow needs until November 2025, with no breach of its covenants in the period to December 2024.

REVERSE STRESS TESTING

In forming their assessment, the Directors deemed it best practice to perform a reverse stress test as part of their going concern assessment. A reverse stress test has been modelled showing the breakeven level of passengers which would result in a covenant breach as at 31 December 2023. The model is based on a reduction in passenger numbers with no impact on costs. For there to be an ICR covenant breach at ADI Funding 2 Limited, forecast passenger numbers would need to decrease by over 13 million (19.3%) to 54.1 million; and for there to be an ICR covenant breach at Heathrow Finance plc, forecast passenger numbers would need to decrease by nearly 15 million (22.3%) to 52.6 million. An even greater passenger number decrease would be required for the Group to breach its RAR covenants. These passenger levels are below the low end of the Group's passenger forecast and are not considered plausible by the Directors based on the recovery experienced through 2022.

CONCLUSION

Having had regard to both liquidity and debt covenants, and considering severe but plausible downsides, the Directors have concluded that there will be funds available to meet the Group and Company's funding requirements for at least 12 months from the approved date of these consolidated financial statements and that it is accordingly appropriate to adopt a going concern basis with no material uncertainty for the preparation of these results.

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:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards.
- Amendments to References to the Conceptual Framework.
- 2018-2020 Annual Improvements to IFRS Cycle.
- IAS 16 Property, Plant and Equipment (Amendment – Proceeds before intended use).
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract).
- Cost of hedging The Group has applied IFRS 9 'Cost of Hedging' principles prospectively from 1 January 2022 for the fair value movement of all hedging instruments, whereby the movements will be recognised within the equity, to the extent that they relate to the hedged item.

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 2023:

- Amendments to IAS 1 Presentation of Financial Statements on classification of liabilities as current and non-current.
- IFRS 17 'Insurance Contracts'.
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8.
- Amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction.
- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback).
- IAS 1 Presentation of Financial Statements (Amendment – Non-current liabilities with Covenants).

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.

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.

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 223 to 225.

COVID-19

The COVID-19 pandemic has had lesser impact in 2022, as compared to the financial years 2021 and 2020. This follows, improved trading conditions with increased passenger numbers as global borders have largely opened, travel restrictions and testing requirements removal, global roll out of vaccines and consumer confidence has started to return. The Group continued to operate 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 this background, 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 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.

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 67. 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 ('TCFD') on page 74. 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 TCFD on page 76. Positive engagement with the CAA and airlines during 2022 supported the inclusion of £207 million (2020 CPI pricing) of investment in carbon and sustainability improvements in our business plan for the current regulatory settlement period (2022-2026). Subject to the final settlement, this is allowing 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. Further information on Heathrow's plan on achieving commitment for a global net zero goal for aviation is on page 36.

In preparing these financial statements, Management have 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 aim 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 158-161 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 revenues growth which is proportional to future passenger numbers and other linked factors. 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. There are no unrecognised deferred income tax assets. 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. 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.

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 the majority of the revenue streams, there is a low level of judgement in determining 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.

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.

Borrowing costs incurred during the period of suspension are not considered to be a necessary cost of development and thus are 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 transferred 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 46, 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 previously paused the Expansion programme. However, the board has given approval to commence efforts to remobilise and continue with the programme to completion. Nevertheless, Management still consider Expansion to be a probable outcome. This forms a Critical Judgement and is explained further on page 158.

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 and 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 74, 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 76. 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.

INTANGIBLE ASSETS

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.
- The Group can demonstrate how the intangible asset created will generate future economic benefits.
- The Group has available the resources to complete the asset.
- The Group intends to complete that asset and has the future ability to sell or use the asset.
- 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.
- 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 direct 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.

CASH AND CASH EQUIVALENTS

For the purposes of the Statement of financial position, cash and cash equivalents includes 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.

RESTRICTED CASH

Cash that can only be used for a specific purpose or where access is restricted is classified as restricted cash.

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 to 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 is "hold to collect" the associated cash flows and sell.
- 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 include 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').
- 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 of 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 item.

COST OF HEDGING

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

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 other comprehensive income and accumulated 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.
- 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.

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 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 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 £191 million of assets were valued in this way for 31 December 2022.

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% (2021:19%) 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 and other future taxable profits. There are no unrecognised deferred income tax assets. 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. 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.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

for the year ended 31 December 2022

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. Management considers significant estimates to be those with a significant risk or resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. 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 post-pandemic recovery and regulatory uncertainty on the going concern assessment was considered in some detail. Further information can be found within the 'Basis of preparation' section above.

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 2022, £161 million of fair value losses (2021: £183 million) on these derivatives have been deferred into the cash flow hedge reserve.

CAPITALISATION

Management is 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 £516m as at 31 December 2022. 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 have considered the impact of the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement) and the potential impact of COVID-19 on long term passenger demand and the impact of climate change and have concluded that expansion remains probable.

The policy and regulatory frameworks required to expand Heathrow remain in place. In December 2020, the Supreme Court unanimously ruled that the policy framework governing Expansion – the Airports National Policy Statement ('ANPS') – is lawful UK Government policy. In addition, following third-party requests to review the ANPS, on 6 September 2021, the Secretary for State for Transport concluded that it was not appropriate to review at this time. 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 passenger forecasts are continually reviewed by Management and the Board, which still support the fact that Expansion would be affordable and financeable. This explains why, following Board approval as well as consultation with our airline community and the CAA, we reopened our Interim Property Hardship Scheme in May 2021 and continue to engage with our local communities.

In order to obtain planning consent for the third runway, we will have to demonstrate that expanding Heathrow is compatible with the UK's climate change obligations, including the Paris Climate Agreement. The Government has made decarbonising aviation a central part of its green growth agenda, publishing its Jet Zero Strategy in July 2022. The commitments it sets out, including to accelerate the use of Sustainable Aviation Fuel and new technology, support the incorporation of its 'Widespread Innovation' scenario in our long-term forecast. This is discussed in our Task force for Climate Related Financial Disclosures on page 68. 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. Please see page 34 for our Net Zero Aviation section.

Management have carefully considered the risks to Expansion, particularly future demand recovery following COVID-19 in addition to climate change risk on long-term passenger numbers, the legislative and regulatory environment, and any likely finance ability 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 2022, £516 million of Expansion-related assets in the course of construction, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission, and £16 million of allocated capitalised interest are recognised on the balance sheet. The ability to recognise the majority of these assets is supported by the view that Expansion remains probable, and any future change to this critical judgement would result in an impairment of these assets. Management have 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 2021 no impairment was recognised associated with future rework and using similar approach with updated judgements for circumstances prevailing in current year we reached same conclusion, and no impairment was 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 2022 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.

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.

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 and reversible taxable temporary differences support the recoverability of the deferred tax assets.

Management have concluded that the deferred tax assets can be recovered against future forecast taxable profits and the unwind of existing deferred tax liabilities, particularly in light of the fair value gains which have arisen on financial instruments in the period and the improved trading performance.

KEY SOURCES OF ESTIMATION UNCERTAINTY

INVESTMENT PROPERTIES

In applying IAS 40 investment properties have been estimated to be worth £2,230 million as at 31 December 2022. 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). Valuations are carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) is capitalised using yields derived from market evidence. Independent valuations are obtained for all investment properties.

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 2022 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 2022.

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. The Group has assessed that the accounting estimate does not have significant risk of material adjustment to the carrying amount of derivative financial assets within the next financial year.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2022

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

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

1 SEGMENT INFORMATION CONTINUED

The transaction price allocated to (partially) unsatisfied performance obligations are as set out below:

TABLE (B)

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

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

Revenue of £900 million (2021: £359 million) was derived from a single external customer and has been included within the Heathrow segment.

TABLE (C)

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

[1] Includes intangible asset amortisation charges of £41 million (2021: £37 million).
[2] Reflects fair value (loss)/gain on investment properties only.

TABLE (D)

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

(E) REVENUE AND NON-CURRENT ASSET INFORMATION BY GEOGRAPHICAL SEGMENT

FGP Topco Limited is domiciled in the UK. All revenue from external customers originates in the UK which for the year ended 31 December 2022 was £2,913 million (2021: £1,214 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 £13,112 million (2021: £13,743 million). There were no non-current assets held outside the UK (2021: £nil).

2 OPERATING COSTS

Operating costs comprise:

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Employment [1]		
Wages and salaries	**306**	200
Social security costs	**36**	25
Other pension costs	**32**	35
Other staff related costs	**20**	10
Own staff costs capitalised	**(16)**	(14)
	378	256
Operational[2]	**331**	197
Maintenance	**180**	133
Business rates	**116**	119
Utilities	**105**	59
Other	**119**	66
Operating costs before depreciation and amortisation and exceptional items	**1,229**	830
Depreciation and amortisation		
Property, plant and equipment	**688**	720
Intangible assets	**41**	37
Right of use assets	**41**	40
	770	797
Operating costs before exceptional items	**1,999**	1,627
Exceptional items (Note 3)	**(14)**	31
Total operating costs	**1,985**	1,658

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

2 £4 million was received through the Airport and Ground Operations Support Scheme (2021: £12 million) 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 2022	Year ended 31 December 2021
	£m	£m
Fees payable to the Group's auditor for the annual audit of the:		
Company's ultimate parent	**0.2**	0.2
Ultimate parent company's subsidiaries[1]	**1.0**	1.0
Total audit fees	**1.2**	1.2
Fees payable to the Group's auditor and their associates for other services specific to the Group		
Audit related assurance services	**0.3**	0.2
Other services	**0.2**	0.2
Total non-audit fees	**0.5**	0.4
Total fees	**1.7**	1.6

[1] Fees payable to the Group's auditor for the audit of the Heathrow (SP) Limited annual report and financial statements were £173,000 (2021: £165,000).

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 Finance plc had a monthly average of 6,054 employees (2021: 5,432) of which 118 (2021: 109) 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 statements of the Group and not in the financial statements of LHR Airports Limited.

	Year ended 31 December 2022	Year ended 31 December 2021
By activity		
Operations	**4,892**	4,460
Support Services	**1,162**	972
Total	**6,054**	5,432

DIRECTORS' REMUNERATION

Javier Echave and Emma Gilthorpe were directors of a number of companies within the Heathrow Airport Holdings Limited Group during the year. Javier and Emma's remuneration for the year ended 31 December 2022 is disclosed in the financial statements of Heathrow Airport Holdings Limited and Heathrow Airport Limited respectively. Martin Bailey and Sally Ding were directors of a number of companies within the Heathrow Airport Holdings Limited 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 (2021: one) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2021: one) had retirement benefits accruing to them under a defined contribution scheme.

3 EXCEPTIONAL ITEMS

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

YEAR ENDED 31 DECEMBER 2022 EXCEPTIONAL ITEMS

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

YEAR ENDED 31 DECEMBER 2021 EXCEPTIONAL ITEMS

As a consequence of the impact of the COVID-19 pandemic, the Group had 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 were 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.

4 FINANCING

(a) Net finance costs before certain re-measurements

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

[1] Includes accretion of £260 million for year ended 31 December 2022 (year ended 31 December 2021: £111 million) on index-linked bonds.
[2] Includes accretion of £931 million for year ended 31 December 2022 (year ended 31 December 2021: £318 million) on index-linked swaps.
[3] Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.72% (year ended 31 December 2021: 1.91%) to expenditure incurred on such assets.
[4] Includes foreign exchange retranslation gain on the currency bonds of £6 million (2021: £7 million gain) which has moved systematically in the opposite direction to that of the cross-currency swaps which economically hedge the related currency bonds.
[5] The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movement.

5 TAXATION (CHARGE)/CREDIT

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

The taxation (charge)/credit on the Group's profit 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 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) before tax	169	(1,792)
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 19% (2021: 19%)	(32)	341
Adjustments in respect of current income tax of previous years	1	-
Net non-deductible expenses	(19)	(26)
Adjustments in respect of deferred income tax of previous years	3	(1)
Difference in deferred income tax movement for investment properties	6	13
Changes in tax rate	(14)	(148)
Taxation (charge)/credit for the year	(55)	179

5 TAXATION (CHARGE)/CREDIT CONTINUED

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

The tax credit before certain re-measurements and exceptional items for the year ended 31 December 2022 was £119 million (2021: £254 million). Based on a loss before tax and certain re-measurements of £684 million (2021: £1,270 million), this results in an effective tax rate of 17.4 % (2021: 20%). The tax credit for 2022 is less (2021: more) than implied by the statutory rate of 19% (2021: 19%), primarily due to non-deductible expenses reducing the tax credit for the year offset partly by current year deferred tax movements at the 25% tax rate (2021: some of the current year deferred tax movements at the 25% tax rate, offset partly by non-deductible expenses reducing the tax credit for the year).

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

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

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

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

6 DIVIDENDS

During the year ended 31 December 2022, no dividends were paid (year ended 31 December 2021, no dividends).

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 2021	12,207	2,067	1,061	296	1,407	1,103	18,141
Additions	-	-	-	-	-	285	285
Borrowing costs capitalised	-	-	-	-	-	10	10
Disposals	(2)	-	(2)	(1)	(174)	-	(179)
Capital write-off	-	-	-	-	-	(24)	(24)
Transfer from 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**
Additions	**-**	**-**	**-**	**-**	**-**	**455**	**455**
Impairment charge	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Impairment reversals	**-**	**-**	**-**	**-**	**-**	**14**	**14**
Capital write-off	**-**	**-**	**-**	**-**	**-**	**(16)**	**(16)**
Borrowing costs capitalised	**-**	**-**	**-**	**-**	**-**	**44**	**44**
Disposals	**(128)**	**(28)**	**(17)**	**(4)**	**(1)**	**-**	**(178)**
Transfer to intangible assets	**-**	**-**	**-**	**-**	**-**	**(79)**	**(79)**
Transfer to completed assets	**44**	**60**	**26**	**2**	**9**	**(141)**	**-**
31 December 2022	**12,192**	**2,085**	**1,112**	**370**	**1,241**	**1,450**	**18,450**
Accumulated depreciation							
1 January 2021	(5,120)	(553)	(568)	(108)	(656)	-	(7,005)
Depreciation charge	(497)	(59)	(94)	(21)	(49)	-	(720)
Disposals	2	-	2	1	160	-	165
31 December 2021	**(5,615)**	**(612)**	**(660)**	**(128)**	**(545)**	**-**	**(7,560)**
Depreciation charge	**(502)**	**(57)**	**(85)**	**(14)**	**(30)**	**-**	**(688)**
Disposals	**128**	**28**	**17**	**4**	**1**	**-**	**178**
31 December 2022	**(5,989)**	**(641)**	**(728)**	**(138)**	**(574)**	**-**	**(8,070)**
Net book value							
31 December 2022	**6,203**	**1,444**	**384**	**232**	**667**	**1,450**	**10,380**
31 December 2021	6,661	1,441	443	244	688	1,177	10,654

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 £8 million (2021: £17 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 2022 includes £20 million of accelerated depreciation on Terminal 2 Chilled Water System and various Terminal 5 fixtures and fittings. Depreciation in 2021 included accelerated depreciation of £18 million of accelerated depreciation on Heathrow Express rail assets. Accelerated depreciation results from the review of asset useful economic lives.

Management considered any climate-related risks (as described in the Task Force on Climate Related Disclosures on pages 68-77) 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.

WRITE-OFFS, IMPAIRMENT & IMPAIRMENT REVERSALS

As outlined on page 16, 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 to market conditions, though assets remain exposed to physical damage or obsolescence. In 2022, the Group wrote-off £16 million relating to capital projects paused during COVID-19 pandemic and have been discontinued. In addition, the Group impaired £4 million of capital projects that had commenced but then paused as there now exists uncertainty over their progress to completion and are expected to be discontinued or delayed. Group climate change risk was also considered in the assessment but did not result in a write-off or impairment charge specifically. An impairment reversal amounting to £14 million on previously recognised impairments on COVID-19 impacted projects was also identified and has been presented as an exceptional item on the face of the income statement, refer to Note 3.

BORROWING COSTS CAPITALISED

During the year ended 31 December 2022, borrowing costs of £44 million were capitalised (2021: £10 million). Capitalised borrowing costs were calculated by applying an average interest rate of 5.72% (2021: 1.91%) to expenditure incurred on qualifying assets.

A tax deduction of £44 million (2021: £10 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 2022 was £19,182 million (2021: £17,474 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 2022	31 December 2021
	£m	£m
Cost or valuation	**793**	881
Accumulated depreciation	**(376)**	(455)
Net book value	**417**	426

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 2021	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**
Additions	**-**	**16**	**-**	**16**
Remeasurement	**-**	**9**	**25**	**34**
Depreciation charge for the year	**(10)**	**(2)**	**(29)**	**(41)**
Balance at 31 December 2022	**23**	**27**	**229**	**279**

No leases expired during the year ended 31 December 2022 (2021: five).

LEASE LIABILITIES

	31 December 2022 £m	31 December 2021 £m
Current	**37**	40
Non-current	**341**	331

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] Within leased assets classified under 'Others' category, £192 million (2021: £188 million) relates to the electricity distribution network at the Airport.

8 LEASES CONTINUED

(ii) Amounts recognised in profit and loss

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Depreciation expense on right-of-use assets	**41**	40
Interest expense on lease liabilities	**17**	16
Expense relating to short term leases (included in operating cost)	**-**	-
Expense relating to variable payments not included in the measurement of the lease liability	**3**	4

(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 2022 £m	Year ended 31 December 2021 £m
Fixed payments	**21**	17
Variable payments	**39**	32
Total cash outflow relating to leases	**60**	49

GROUP AS A LESSOR

Lease income from lease contracts where the Group is the lessor is as below:

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Operating lease		
Property (lease-related income)	**102**	103

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 2022 Land and buildings £m	31 December 2021 Land and buildings £m
Within one year	**83**	72
One to two years	**63**	57
Two to three years	**55**	48
Three to four years	**49**	45
Four to five years	**46**	38
More than five years	**1,841**	1,845
	2,137	2,105

9 INVESTMENT PROPERTIES

	Car parks £m	Airport operations £m	Land and other £m	Total £m
Valuation				
1 January 2021	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**
Additions	-	-	2	2
Transfers from property, plant and equipment	-	-	-	-
Investment property fair value movements	(42)	(20)	(7)	(69)
31 December 2022	**1,090**	**509**	**631**	**2,230**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Valuation				
1 January 2021	-	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**
Additions	-	2	-	2
Transfers from property, plant and equipment	-	-	-	-
Investment property fair value movements	-	(36)	(33)	(69)
31 December 2022	**-**	**1,324**	**906**	**2,230**

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

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

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

Level 2 inputs are other quoted market prices directly or indirectly observable and involve a combination of inputs. The car parks, sites and non-operational land valuations, and residential 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 92% (2021: 89%) of the valuation. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues too.

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

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

9 INVESTMENT PROPERTIES CONTINUED

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

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

The sensitivities analysis below relates specifically to fair value movements in car parks within the level 3 valuation that comprises 89% (2021: 94%) 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	
+2.0% pa	**29**
-2.0% pa	**(29)**
Car parks – Revenue growth	
+1.0% pa	**133**
-1.0% pa	**(107)**
Car parks – Operating costs growth	
+1.0% pa	**(59)**
-1.0% pa	**54**

The property rental income earned by the Group from its investment property, amounted to £219 million (2021: £88 million). Direct operating expenses arising on the investment property, all of which generated rental income in the period, amounted to £13 million (2021: £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 (2021: less than £1 million).

Securities granted by the Group over its assets, including investment properties, are disclosed in Note 16.

10 INTANGIBLE ASSETS

	Software £m	Other Intangibles £m	Total £m
Cost			
1 January 2021	354	-	354
Impairment	(7)	-	(7)
Transfers from property, plant and equipment	18	-	18
31 December 2021	**365**	**-**	**365**
Disposals	**(39)**	**-**	**(39)**
Transfers from property, plant and equipment	**35**	**44**	**79**
31 December 2022	**361**	**44**	**405**
Amortisation and impairment			
1 January 2021	(172)	-	(172)
Charge for the year	(37)	-	(37)
31 December 2021	**(209)**	**-**	**(209)**
Charge for the year	**(41)**	**-**	**(41)**
Disposals	**39**	**-**	**39**
31 December 2022	**(211)**	**-**	**(211)**
Net book value			
31 December 2022	**150**	**44**	**194**
31 December 2021	156	-	156

SOFTWARE COSTS

These software costs principally relate to operating and financial software. These assets are being amortised over a period of between four and fifteen years. Amortisation for the year has been charged through operating costs.

OTHER INTANGIBLES

Other intangibles relate to payments made to Crossrail in return for a service level commitment to operate services to Heathrow for a period of 15 years. As outlined in Other Commitments Note 23, in 2022 an initial payment of £44 million was made to Crossrail with a second payment scheduled to be made in 2023 to coincide with the full service level being reached. No amortisation has been charged in 2022 as the 15-year service period will only commence when the full service level is reached.

11 INVENTORIES

	31 December 2022 £m	31 December 2021 £m
Consumables	**16**	13

The total amount of inventories consumed in the year was £1 million (2021: £4 million).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

12 TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2022 **£m**	Year ended 31 December 2021 £m
Non-current		
Prepaid debt fees[1]	**5**	1
Prepayments	**12**	12
Amounts owed by parent entity	**3**	2
Other receivables	**9**	8
31 December 2022	**29**	23
Current		
Trade receivables	**128**	98
Accrued income[2]	**92**	64
Trade receivables and accrued income	**220**	162
Less: provision for impairment	**(16)**	(20)
Trade receivables and accrued income after impairment	**204**	142
Prepayments	**30**	32
Amounts owed by group undertakings	**6**	7
Other receivables	**30**	20
31 December 2022	**270**	201

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 2022, trade receivables of £53 million (2021: £38 million) were fully performing. Trade receivables of £75 million (2021: £60 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.

Movements in the provision for impairment of trade receivables are as follows:

	£m
1 January 2021	**17**
Impairment of trade receivables	3
31 December 2021	**20**
Impairment of trade receivables	(4)
31 December 2022	**16**

As at 31 December 2022, trade receivables were considered for impairment under IFRS 9 resulting in a decrease in provision of £4 million (2021: £3 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, no trade receivables (2021: £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

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Cash at bank and in hand	**78**	42
Short-term deposits	**207**	174
Cash and cash equivalents	**285**	216
Term deposits	**1,548**	2,410
Cash and cash equivalents and term deposits	**1,833**	2,626

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.

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

	Year end 31 December 2022 £m	Year end 31 December 2021 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
1.650%+RPI £180 million due 2022	**-**	234
1.875% €600 million due 2022	**-**	507
5.225% £750 million due 2023	**747**	-
Total current (excluding interest payable)	**747**	741
Interest payable – external	**199**	203
Interest payable – owed to group undertakings	**51**	64
Total current	**997**	1,008
Non-current		
Secured		
Heathrow Funding Limited bonds:		
5.225% £750 million due 2023	**-**	732
7.125% £600 million due 2024	**598**	597
0.500% CHF400 million due 2024	**349**	326
3.250% C$500 million due 2025	**292**	294
1.500% €750 million due 2025	**660**	625
4.221% £155 million due 2026	**155**	155
0.450% CHF210 million due 2026	**174**	170
6.750% £700 million due 2026	**696**	695
2.650% NOK1,000 million due 2027	**79**	84
2.694% C$650 million due 2027	**396**	379
1.800% CHF165 million due 2027	**147**	-
3.400% C$400 million due 2028	**243**	233
7.075% £200 million due 2028	**199**	199
4.150% A$175 million due 2028	**91**	99
2.625% £350 million due 2028	**347**	346
2.500% NOK1,000 million due 2029	**71**	77
2.750% £450 million due 2029	**446**	445
1.500% €750 million due 2030	**571**	656
3.782% C$400 million due 2030	**239**	235
1.125% €500 million due 2030	**437**	414
3.661% C$500 million due 2031	**304**	291
6.450% £900 million due 2031	**863**	860
Zero-coupon €50 million due January 2032	**70**	63
1.366%+RPI £75 million due 2032	**104**	92

	Year end 31 December 2022 £m	Year end 31 December 2021 £m
Non-current		
Secured *(continued)*		
Heathrow Funding Limited bonds *continued:*		
Zero-coupon €50 million due April 2032	**68**	62
1.875% €500 million due 2032	**441**	418
0.101%+RPI £182 million due 2032	**218**	192
3.726% C$625 million due 2033	**386**	371
1.875% €650 million due 2034	**445**	555
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**57**	52
0.347%+RPI £75 million due 2035	**91**	80
0.337%+RPI £75 million due 2036	**91**	80
1.061%+RPI £180 million due 2036	**245**	216
3.460% £105 million due 2038	**105**	105
0.419%+RPI £51 million due 2038	**61**	54
1.382%+RPI £50 million due 2039	**69**	61
Zero-coupon €86 million due 2039	**84**	78
3.334%+RPI £460 million due 2039	**765**	679
0.800% JPY1,000 million due 2039	**52**	64
1.238%+RPI £100 million due 2040	**137**	121
0.362%+RPI £75 million due 2041	**91**	80
5.875% £750 million due 2041	**739**	739
3.500% A$125 million due 2041	**70**	67
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**742**	742
4.702% £60 million due 2047	**60**	-
1.372%+RPI £75 million due 2049	**104**	92
2.750% £400 million due 2049	**393**	393
0.147%+RPI £160 million due 2058	**197**	175
Total bonds	**13,346**	13,647
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	**100**	100
Class A3 term loan due 2029	**200**	200
Term notes due 2026-2052	**1,277**	928
Unsecured		
Debenture payable to Heathrow Finance plc	**2,533**	3,466
Total non-current	**17,456**	18,341
Total borrowings (excluding interest payable)	**18,203**	19,082

14 BORROWINGS CONTINUED

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

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

INTEREST RATE BENCHMARK REFORM

At 1 January 2022, all debt has transitioned across to the alternative risk-free-rates as part of the iBOR change, with Sterling Overnight Index Average (SONIA) rates replacing GBP LIBOR rate.

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, 0.337%+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.

	31 December 2022		31 December 2021	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m
Current				
Short-term debt	**747**	**749**	741	691
Non-current				
Long-term debt	**14,923**	**13,339**	14,875	16,672
Borrowings from parent	**2,533**	**2,533**	3,466	3,466
	18,203	**16,621**	19,082	20,829

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 2022, the fair value of debt classified as Level 1 and Level 2 was £12,171 million and £4,450 million respectively (2021: £15,137 million and £5,692 million respectively).

The average cost of the Group's external gross debt at 31 December 2022 was 3.64% (2021: 1.25%), 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 2022 was 10.53% (2021: 3.64%).

The RPI growth rate in the period reflected by a 12-month annualised increase of 14.0% in 2022 compared to an annualised increase of 7.1% in 2021.

[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.

IMPACT OF FAIR VALUE HEDGE ADJUSTMENTS

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

	31 December 2022		31 December 2021	
	Nominal[1] £m	Fair value adjustment[2] £m	Nominal[1] £m	Fair value adjustment[2] £m
Euro denominated debt	**1,125**	**211**	1,615	(52)
CAD denominated debt	**337**	**16**	337	(5)
CHF denominated debt	**437**	**24**	437	1
AUD denominated debt	**96**	**7**	96	(6)
JPY denominated debt	**71**	**12**	71	1
NOK denominated debt	**176**	**18**	176	6
	2,242	**288**	2,732	(55)

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.

The total value secured is £15,670 million (2021: £16,647 million), equal to the gross value of Heathrow (SP) Group debt.

1 Nominal values are based on initial designation FX rates.
2 Fair value adjustment is comprised of fair value loss of £293 million (year ended December 2021: £45 million loss) on continuing hedges and £5 million loss (year ended December 2021: £9 million loss) on discontinued hedges.

15 DERIVATIVE FINANCIAL INSTRUMENTS

31 December 2022	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	29	1	(1)	-
Index-linked swaps	160	-	(39)	(39)
	189	**1**	**(40)**	**(39)**
Non-current				
Interest rate swaps	7,378	662	(1,010)	(348)
Cross-currency swaps	5,533	337	(185)	152
Index-linked swaps	5,547	146	(1,241)	(1,095)
	18,458	**1,145**	**(2,436)**	**(1,291)**
Total	**18,647**	**1,146**	**(2,476)**	**(1,330)**
31 December 2021				
Current				
Foreign exchange contracts	83	-	(2)	(2)
Cross-currency swaps	490	25	-	25
Index-linked swaps	100	-	(17)	(17)
	673	25	(19)	6
Non-current				
Foreign exchange contracts	29	-	-	-
Interest rate swaps	7,500	113	(665)	(552)
Cross-currency swaps	5,398	255	(98)	157
Index-linked swaps	5,707	53	(1,462)	(1,409)
	18,634	421	(2,225)	(1,804)
Total	19,307	446	(2,244)	(1,798)

At 31 December 2022, total non-current notional value of Derivative financial instruments due in greater than 5 years was £12,567 million (2021: £13,543 million), comprising £4,727 million (2021: £4,777 million) of index-linked swaps, £3,555 million (2021: £4,013 million) of cross-currency swaps, and £4,285 million (2021: £4,753 million) of interest rate swaps.

In 2020, 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 £0.5 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 to maintain hedging ratio compliance. This resulted in a fair value of £2 million (cost) at initial recognition and deferred on the balance sheet.

As at 31 December 2022, £246 million (2021: £276 million) remained deferred on the balance sheet and £32 million (2021: £30million) had been recognised in the income statement for the period.

The Group has index-linked derivative financial instruments where changes in RPI are capitalised to the carrying value of the instrument over its life, with scheduled payments every 5 years. The nominal value of index-linked derivative financial instruments is £5,707 million, and cumulative accretion over the life of the instruments is £2,484 million. During the year, the Group paid scheduled accretion payments of £44 million as well as electing to pay £490 million of early cash repayments of its accrued accretion in advance of the schedule repayment dates, which has had the effect of reducing future accretion payments by £541 million. The accretion accrual over index linked swaps at 31 December 2022 is £726 million.

INTEREST RATE SWAPS

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

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

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

CROSS-CURRENCY SWAPS

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on certain swaps in cash flow hedge relationships will be continuously released to the income statement over the period to maturity of the hedged bonds. The gains deferred of £116 million (2021: £43 million), of which of £19 million (2021: £7 million) are expected to be released in less than one year, gains of £19 million (2021: £7 million) between one and two years, £46 million (2021: £22 million) between two and five years and gains of £32 million (2021: £7 million) over five years.

INDEX-LINKED SWAPS

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

FOREIGN EXCHANGE CONTRACTS

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

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.

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 SONIA 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 certain re-measurements within finance costs of £11 million loss (2021: £9 million) 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 opposite:

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Hedged FX rate	Swap maturity	Carrying value of hedged item 2022 £m	Carrying value of hedged item 2021 £m
1.875% €600 million due 2022	490	6m LIBOR + 0.60%	1.16	2022	-	507
0.500% CHF400 million due 2024	277	SONIA + 1.86%	1.44	2024	**349**	326
3.250% C$500 million due 2025	266	SONIA + 1.15%	1.88	2025	**292**	294
0.450% CHF210 million due 2026	160	SONIA + 1.27%	1.31	2026	**174**	170
2.650% NOK1,000 million due 2027	84	SONIA + 1.00%	11.85	2027	**79**	84
4.150% A$175 million due 2028	96	SONIA + 1.51%	1.82	2028	**91**	99
2.500% NOK1,000 million due 2029	91	SONIA + 1.71%	10.97	2029	**71**	77
1.500% €750 million due 2030	566	SONIA + 1.07%	1.16	2030	**571**	657
3.782% C$400 million due 2030[1]	72	SONIA + 1.55%	1.68	2030	**72**	71
1.875% €650 million due 2034	559	SONIA + 1.53%	1.16	2034	**445**	556
0.800% JPY1,000 million due 2039	71	SONIA + 1.60%	141.44	2039	**52**	64

MOVEMENT NOTE

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Swap maturity	Change in value of hedged item 2022 £m	Change in value of hedging instrument 2022 £m	Change in value of hedged item 2021 £m	Change in value of hedging instrument 2021 £m
3.000% CAD450 million due 2021	-	6m LIBOR + 0.69%	2021	-	-	10	(11)
4.875% US$1000 million due 2021	-	6m LIBOR + 2.58%	2021	-	-	19	(19)
6.750% £700 million due 2026	-	6m LIBOR + 0.87%	2021	-	-	1	(1)
7.075% £200 million due 2028	-	6m LIBOR + 1.22%	2021	-	-	-	(1)
1.875% €600 million due 2022	490	6m LIBOR + 0.60%	2022	**11**	**(11)**	42	(43)
0.500% CHF400 million due 2024	277	SONIA + 1.86%	2024	**(23)**	**26**	11	(9)
3.25% C$500 million due 2025	266	SONIA + 1.15%	2025	**2**	**(6)**	8	(10)
0.450% CHF210 million due 2026	160	SONIA + 1.27%	2026	**(4)**	**5**	7	(7)
2.65% NOK1,000 million due 2027	84	SONIA + 1.00%	2027	**5**	**(5)**	6	(6)
4.150% A$175 million due 2028	96	SONIA + 1.51%	2028	**8**	**(8)**	14	(15)
2.50% NOK1,000 million due 2029	91	SONIA + 1.71%	2029	**6**	**(6)**	5	(4)
1.50% €750 million due 2030	566	SONIA + 1.07%	2030	**86**	**(93)**	79	(83)
3.782% C$400 million due 2030	72	SONIA + 1.55%	2030	**4**	**(6)**	3	(3)
1.875% €650 million due 2034	559	SONIA + 1.53%	2034	**112**	**(115)**	81	(85)
0.800% JPY10,000 million due 2039	71	SONIA + 1.60%	2039	**12**	**(9)**	8	(5)

[1] Bifurcation of hedge, fair value designation of C$120 million with the remaining balance designated in a cash flow hedge.

16 FINANCIAL INSTRUMENTS CONTINUED

The fair value of cross currency interest rate swaps designated in fair value hedged at 31 December 2022 was £110 million (2021: £228 million) asset and £159 million (2021: £23 million) liability, respectively.

These cross-currency derivatives are included within "derivative financial assets" and "derivative financial liabilities" in the statement of financial position.

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 Group's 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 2022 and 2021 financial years as the notional amount, maturity, payment and reset dates match. Any ineffectiveness due to credit adjustments and cross-currency basis spreads are recognised in certain re-measurement within finance costs of £20 million gain (2021: £10 million loss) in the income statement.

Borrowings in a hedge relationship	**Notional hedged £m**	**Weighted average interest rate after swaps**	**Hedged rate**	**Swap maturity**	**Hedging instrument fair value 2022 £m**	Hedging instrument fair value 2021 £m
1.500% €750million due 2025	681	2.34%	1.10	2025	**(8)**	(40)
2.694% C$650 million due 2027	374	2.03%	1.74	2027	**38**	6
3.400% C$400 million due 2028	226	2.66%	1.77	2028	**31**	10
3.782% C$400 million due 2030[1]	167	2.93%	1.68	2030	**18**	(2)
1.125% €500 million due 2030	427	2.33%	1.17	2030	**8**	(14)
3.661% C$500 million due 2031	291	3.18%	1.72	2031	**33**	(1)
1.875% €500 million due 2032	443	2.67%	1.13	2032	**-**	(20)
3.726% C$300 million due 2033	173	2.81%	1.74	2033	**27**	5
3.726% C$325 million due 2033	190	2.78%	1.71	2033	**30**	5
3.500% A$125 million due 2041	68	2.44%	1.84	2041	**5**	(4)
1.800% CHF165 million due 2027	136	3.39%	1.21	2027	**18**	-

During the period, a CHF165 million notional currency bond was swapped into GBP fixed rate debt.

[1] Bifurcation of hedge, cash flow hedge designation of C$280 million with the remaining balance designated in a fair value hedge.

MOVEMENT NOTE

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Swap maturity	Change in value of hedged item 2022 £m	Change in value of hedging instrument 2022 £m	Change in value of hedged item 2021 £m	Change in value of hedging instrument 2021 £m
1.500% €750million due 2025	681	2.34%	2025	**(28)**	**31**	24	(24)
2.694% C$650 million due 2027	374	2.03%	2027	**(34)**	**32**	(12)	10
3.400% C$400 million due 2028	226	2.66%	2028	**(22)**	**20**	(7)	6
3.782% C$400 million due 2030[1]	167	2.93%	2030	**(20)**	**19**	(6)	6
1.125% €500 million due 2030	427	2.33%	2030	**(16)**	**19**	7	(10)
3.661% C$500 million due 2031	291	3.18%	2031	**(37)**	**34**	(11)	12
1.875% €500 million due 2032	443	2.67%	2032	**(16)**	**20**	22	(20)
3.726% C$300 million due 2033	173	2.81%	2033	**(26)**	**22**	(8)	7
3.726% C$325 million due 2033	190	2.78%	2033	**(29)**	**24**	(1)	5
3.500% A$125 million due 2041	68	2.44%	2041	**(8)**	**9**	2	(4)
1.800% CHF165 million due 2027	136	3.39%	2027	**(17)**	**17**	-	-

The fair value of cross currency interest rate swaps designated in cash flow value hedged at 31 December 2022 was £215 million (2021: £28 million) asset and £8 million (2021: £74 million) liability, respectively.

These cross-currency derivatives are included within "Derivative financial assets" and "Derivative financial liabilities" in the statement of financial position.

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. No other sources of ineffectiveness emerged from these hedging relationships.

[1] Bifurcation of hedge, fair value designation of C$280 million with the remaining balance designated in a cash flow hedge.

16 FINANCIAL INSTRUMENTS CONTINUED

SENSITIVITY ANALYSIS

Each 1.50% (2021: 0.20%) 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 costs and mark-to-market valuation of derivatives:

	31 December 2022		31 December 2021	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
SONIA rate				
2022: 1.50% increase (2021: 0.20% increase)	**447**	**-**	(29)	-
2022: 1.50% decrease (2021: 0.20% decrease)	**(690)**	**-**	29	-

The sensitivities we disclose in the accounts are forward looking, so we analyse sensitivities around market data risk to the carrying amounts of assets and liabilities within the next financial year and as such we consider 1.50% to be reasonable and provided an appropriate stress test.

The sensitivity analysis has been determined based on reasonably possible changes of the respective assumptions and may not be representative of the actual change.

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 2022, the super senior assumed recovery rate was 85% (2021: 88%), with all other variables remaining constant, if the assumed recovery rate had increased or decreased by 10% (2021: 10%), annual pre-tax profit would have decreased or increased by £47 million and £47 million respectively (2021: £51 million and £53 million respectively). Management have considered and agree a consistent approach to the assumed recovery rate across the hedging derivative under the priority payments enforcements as ranked super senior ahead of all Class A debt.

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 2022, 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 £668 million and £618 million respectively (2021: a 1% increase or decrease leading to a £848 million decrease and £775 million increase respectively). The sensitivities we disclose in the accounts are forward looking, so we analyse sensitivities around market data risk to the carrying amounts of assets and liabilities within the next financial year and as such we consider 1% to be reasonable and provided an appropriate stress test. The sensitivity analyses have been determined based on reasonably possible changes of the respective assumptions and may not be representative of the actual change.

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 2022, the Group had credit risk on derivatives with asset mark to market of £1,146 million (2021: £446 million). The maximum exposure to credit risk as at 31 December 2022 was £3,183 million (2021: £3,214 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 with derivative counterparty £m	Net amount £m
31 December 2022				
Derivative financial assets	**1,146**	**(538)**	**256**	**864**
Derivative financial liabilities	**(2,476)**	**538**	**(256)**	**(2,194)**
31 December 2021				
Derivative financial assets	446	(145)	63	364
Derivative financial liabilities	(2,244)	145	(63)	(2,162)

There were no other material amounts offset in the consolidated statement of financial position or associated with enforceable master netting agreements.

16 FINANCIAL INSTRUMENTS CONTINUED

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 2022 and 31 December 2021 was determined as follows:

31 December 2022	**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	**53**	**54**	**2**	**2**	**17**	**128**
Lifetime expected credit loss	**(2)**	**(2)**	**-**	**-**	**(12)**	**(16)**
Total adjusted receivables	**51**	**52**	**2**	**2**	**5**	**112**

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

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 2022 £m	31 December 2021 £m
Floating rate facilities		
Expiring in more than one year and less than two years	**-**	1,150
Expiring in more than two years and less than five years[1]	**1,386**	-
	1,386	1,150

[1] With an ESG element to be incorporated within 6 months of the facility being signed, being end of Q1 2023, incorporation will be via majority lender consent in order for ESG KPIs to be incorporated.

As at 31 December 2022, overdraft facilities of £10 million were available (2021: £10 million).

We have sufficient liquidity to meet all our forecast needs until at least February 2024 under the extreme stress-test scenario of no revenue, or well into 2024 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 £3,219 million in cash resources as well as undrawn debt and liquidity as at 31 December 2022 (2021: £3,766 million).

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 2022	**Less than one year £m**	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**751**	**878**	**2,762**	**11,306**
Borrowing interest payments	**553**	**518**	**1,306**	**3,679**
Derivative financial instruments	**49**	**19**	**230**	**(1,180)**
Trade payables	**231**	**-**	**-**	**231**
Capital payables	**91**	**-**	**-**	**-**
Lease liabilities	**51**	**72**	**71**	**472**

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

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 2022	**Less than one year £m**	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**207**	**216**	**497**	**584**
Cross-currency derivative receipts	**(130)**	**(124)**	**(322)**	**(436)**

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)

16 FINANCIAL INSTRUMENTS CONTINUED

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

The Group's senior (Class A) and junior (Class B) gearing ratios were 64.9% and 76.0% respectively (31 December 2021: 64.6% and 76.3% respectively) with respective trigger levels of 72.5% and 85%.

FINANCIAL INSTRUMENTS BY CATEGORY

The Group's financial instruments as classified in the financial statements can be analysed under the following categories:

31 December 2022	**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]	**-**	**821**	**325**	**1,146**
Cash and cash equivalents	**285**	**-**	**-**	**285**
Trade receivables	**204**	**-**	**-**	**204**
Term deposits	**1,548**	**-**	**-**	**1,548**
Total financial assets	**2,037**	**821**	**325**	**3,183**

31 December 2022	**Liabilities at fair value through income statement** £m	**Derivatives qualifying for hedge accounting** £m	**Other financial liabilities at amortised cost** £m	**Total** £m
Borrowings	**-**	**-**	**(18,203)**	**(18,203)**
Derivative financial instruments[3,4]	**(2,308)**	**(168)**	**-**	**(2,476)**
Trade payables	**-**	**-**	**(231)**	**(231)**
Capital payables	**-**	**-**	**(91)**	**(91)**
Lease liabilities	**-**	**-**	**(378)**	**(378)**
Total financial liabilities	**(2,308)**	**(168)**	**(18,903)**	**(21,379)**

[1] Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £110 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 £215 million.
[3] Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £159 million.
[4] 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 £8 million.

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

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[3,4]	(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)

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

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

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

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

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

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

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.
3 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.
4 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 FINANCIAL INSTRUMENTS CONTINUED

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

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

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

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

31 December 2021	Level 1 £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)

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	2022 £m	2021 £m
1 January		**(706)**	(784)
(Charged)/credited to income statement	*5*	**(82)**	392
Credited/(charged) to income statement - change in tax rate		**26**	(214)
Credited/(charged) to other comprehensive income	*22*	**91**	(107)
Credited to other comprehensive income - change in tax rate		**-**	7
31 December		**(671)**	(706)

Deferred tax is analysed as follows:

	2022 £m	2021 £m
Deferred income tax liabilities	**(1,136)**	(1,328)
Deferred income tax assets	**465**	622
31 December	**(671)**	(706)

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 2021	(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)
Credited/(charged) to income statement	**99**	**13**	**(4)**	**-**	**-**	**108**
Credited to income statement – change in tax rate	**1**	**-**	**-**	**-**	**-**	**1**
Credited to other comprehensive income	**-**	**-**	**114**	**-**	**-**	**114**
Transfer to deferred tax assets	**-**	**-**	**(31)**	**-**	**-**	**(31)**
31 December 2022	**(823)**	**(258)**	**-**	**(43)**	**(12)**	**(1,136)**

17 DEFERRED INCOME TAX CONTINUED

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 2021	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)
Credited/(charged) 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**
(Charged)/credited to income statement	**(204)**	**2**	**-**	**-**	**12**	**(190)**
Credited to income statement – change in tax rate	**7**	**-**	**-**	**-**	**18**	**25**
Charged to other comprehensive income	**(23)**	**-**	**-**	**-**	**-**	**(23)**
Transfer from deferred income tax liabilities	**-**	**-**	**31**	**-**	**-**	**31**
31 December 2022	**189**	**5**	**31**	**24**	**216**	**465**

Deferred income tax credit/(charge) to other comprehensive income during the year was as follows:

	Note	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Cash flow hedge reserve	*22*	**(23)**	(6)
Tax credit on actuarial movement	*22*	**114**	(90)
Change in tax rate	*22*	**-**	(4)
		91	(100)

The Finance Act 2021 substantively enacted the increase in corporation tax rate from 19% to 25%, to 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 2022, the aggregate amount of undistributed earnings of subsidiaries and joint ventures on which temporary differences may exist was £nil (2021 £nil).

A nil deferred tax liability (2021: 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 £216m deferred tax asset, £30m relates to trading losses and the balance relates to non-trading deficit post-April 2017.

The net deferred tax liability expected to reverse in 2023 is £21 million. This primarily relates to the reversal of timing differences in relation to accelerated capital allowances 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 2042, which is the expected timing required for the deferred tax asset on the fair value of financial instruments and other timing differences 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 at 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. Other factors affecting group profitability are covered in the climate change section in accounting policies.

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 2022.

LHR Airports Limited, which is an indirect subsidiary of HAHL 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 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).

18 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

INCOME STATEMENT

Pension and other pension related liabilities costs

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

OTHER COMPREHENSIVE INCOME

(Loss)/gain on pension and other pension related liabilities

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

For the year-ended 31 December 2022, a net past service credit of £2 million was recognised, comprised of a past service credit of £8 million in relation to calculation of deferred member revaluation and a past service cost of £6 million in relation to a temporary change to scheme rules which ensures the final pensionable salary of scheme members was not impacted by 2020 salary changes. There was no past service cost or credit recognised in the year-ended 31 December 2021.

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.

	31 December				
	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of plan assets	**2,735**	4,886	4,796	4,302	3,869
Benefit obligation	**(2,839)**	(4,543)	(4,784)	(4,269)	(3,841)
(Deficit)/surplus in BAA Pension Scheme	**(104)**	343	12	33	28
Unfunded pension obligations	**(21)**	(29)	(30)	(28)	(28)
Post-retirement medical benefits	**(1)**	(1)	(1)	(1)	(4)
Deficit in other pension related liabilities	**(22)**	(30)	(31)	(29)	(32)
Net (deficit)/surplus in pension schemes	**(126)**	313	(19)	4	(4)
Group share of net (deficit)/surplus in pension schemes	**(126)**	313	(19)	4	(4)

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

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

18 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

(A) BAA PENSION SCHEME

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

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

Analysis of movements in plan assets and defined benefit obligations

	2022 £m	2021 £m
Fair value of plan assets at 1 January	**4,886**	4,796
Income statement:		
Interest income on plan assets	**88**	6
Administration costs	**(3)**	(3)
Other comprehensive income:		
Re-measurement gain (return on assets in excess of interest income on plan assets)	**(2,109)**	188
Cash flows:		
Employer contributions (including benefits paid and reimbursed)[1]	**29**	1
Members' contributions	**1**	1
Benefits paid (by fund and Group)	**(157)**	(158)
Fair value of plan assets at 31 December	**2,735**	4,886

	2022 £m	2021 £m
Defined benefit obligation at 1 January	**(4,543)**	(4,784)
Income statement:		
Current service cost	**(17)**	(21)
Past service cost	**2**	-
Interest cost	**(81)**	(61)
Other comprehensive income:		
Re-measurements of defined benefit obligation:		
Arising from changes in financial assumptions	**1,835**	154
Arising from changes in demographic assumptions	**11**	54
Experience loss	**(201)**	(41)
Cash flows:		
Members' contributions	**(1)**	(1)
Employer contributions	**(1)**	(1)
Benefits paid (by fund and Group)	**157**	158
Defined benefit obligation at 31 December	**(2,839)**	(4,543)

[1] 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 fully unwound in 2021 where no additional cash contributions were made in the year.

The net actuarial loss before tax of £464 million (2021: £355 million net gain) for the BAA Pension Scheme resulted from a decrease in obligations due to higher net discount rate of £1,835 million (2021: £153 million), offset by a decrease in assets £2,109 million due to over performance relative to discount rates (2021: £188 million gain). In addition, there was an £11 million gain (2021: £54 million) attributable to updated demographic assumptions and a £201 million experience loss (2021: £41 million).

The actuarial loss on change in financial assumptions is mainly attributable to a loss on assets which outstripped actuarial gains on liabilities resulting from an increase in the net discount rate of 2.90% over the year, based on a discount rate assumption of 4.70% and an RPI inflation assumption of 3.40%. The discount rate used has increased from 1.80% in 2021 to 4.70% in 2022 and is derived from the yield on 'high quality corporate bonds' of duration consistent with liabilities of the scheme. 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.

Analysis of fair value of plan assets

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

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

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

[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.

18 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

(A) BAA PENSION SCHEME CONTINUED

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

The assumptions relating to longevity underlying the pension liabilities at the reporting date are in line with those adopted for the 2022 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 65 year old male pensioner of 21.8 years (2021: 22.0 years) and 22.7 years (2021: 22.9 years) from age 65 for a 45 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 2022, the assumptions have been updated from those detailed at the September 2021 triennial valuation to allow for actual realised inflation in 2022. The future inflation assumptions above are applied for future periods.

Analysis of future cash flows

UK legislation requires that pension schemes are funded prudently. In December 2022, the trustee of the BAA Pension Scheme concluded a formal actuarial valuation of the Scheme as at September 2021. The next actuarial valuation of the BAA Pension Scheme will be measured as at 30 September 2024.

The September 2021 funding valuation identified a surplus of £119 million, consequently LHR Airports have agreed that no deficit repair contributions are required. Previously, deficit repair contributions of £20 million per annum were paid.

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 2021 and the cost at 30 September 2018 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 2021	30 September 2018
	% of base salary including shift pay	% of base salary including shift pay
Cost of pension benefits	**29.0**	26.4
Plus Administration Expenses (including the PPF levy)	**-**	2.6
Less members' contributions	**(3.4)**	(3.4)
Employer future service contribution rate	**25.6**	25.6

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%. 1% is considered to be reasonable and in line with market practice and the movements in assumptions observed in 2022.

18 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

(A) BAA PENSION SCHEME CONTINUED

	(Decrease)/increase in defined benefit obligation	
	Before tax £m	After tax £m
Discount rate		
+1.00% discount rate	**(376)**	**(305)**
-1.00% discount rate	**472**	**382**
Inflation rate		
+0.50% inflation rate	**139**	**113**
-0.50% inflation rate	**(108)**	**(87)**
Mortality		
Increase in life expectancy by one year	**108**	**87**

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 2022 have been updated for the CMI 2021 model as noted above in the analysis of financial assumptions.

Total contributions by the Company to the defined benefit pension scheme in 2023 are expected to be £14 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 15 years (2021: 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 £21 million (2021: £29 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 (2021: £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	2	2	-	4
Non-current	-	-	1	1
1 January 2022	2	2	1	5
Utilised	(2)	-	-	(2)
31 December 2022	-	2	1	3
Current	-	2	-	2
Non-current	-	-	1	1
31 December 2022	-	2	1	3

REORGANISATION COSTS

Provisions were recognised in relation to the exceptional restructuring programme that took place in 2020. The provisions were fully utilised in 2022.

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 £8 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 2022, total amount utilised was £5 million paid against 171 properties resulting in a closing balance of £2 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 a provision of £2 million, equal to the closing balance.

OTHER

These provisions relate to insurance claims liability from incidents which occurred at Heathrow Airport.

20 TRADE AND OTHER PAYABLES

	31 December 2022 £m	31 December 2021 £m
Non-current		
Other payables	**4**	3
	4	3
Current		
Deferred income	**20**	37
Trade payables[1]	**231**	132
Other tax and social security	**8**	7
Other payables	**58**	51
Capital payables	**91**	76
Amounts owed to group undertakings – operating[2]	**62**	62
	470	365

The fair value of trade payables and other payables are assumed to materially equate to their carrying value due to their short-term nature.

21 SHARE CAPITAL

	£m
Authorised	
At 1 January and 31 December 2021	
9,000,000,000 (2021: 9,000,000,000) ordinary shares of 0.19p each	**17**
Called up, allotted and fully paid	
5,773,555,178 (2021: 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 Amounts owed to group undertakings largely relate to external payments made by LHR Airports Limited under the Shared Services Agreement on behalf of Heathrow.

22 TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

The tax (charge)/credit relating to components of other comprehensive income was as follows:

	31 December 2022			31 December 2021		
	Before tax £m	Tax (charge)/ credit £m	After tax £m	Before tax £m	Tax (charge)/ credit £m	After tax £m
Cash flow hedges						
Gains/(losses) taken to equity	**14**	**(3)**	**11**	24	(6)	18
Transferred to net finance costs	**79**	**(20)**	**59**	50	(12)	38
Change in tax rate	**-**	**-**	**-**	-	12	12
Actuarial gain/(loss) on pensions (Note 18)						
(Loss)/gain on plan assets	**(2,109)**	**527**	**(1,582)**	188	(47)	141
Decrease in scheme liabilities	**1,652**	**(413)**	**1,239**	167	(42)	125
Change in tax rate	**-**	**-**	**-**	-	(1)	(1)
Change in tax rate relating to other opening balances	**-**	**-**	**-**	-	(4)	(4)
Other comprehensive (loss)/income	**(364)**	**91**	**(273)**	429	(100)	329

23 COMMITMENTS AND CONTINGENT LIABILITIES

COMMITMENTS FOR PROPERTY, PLANT AND EQUIPMENT

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

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

OTHER COMMITMENTS

Heathrow Airport Limited has a commitment to pay £94 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. A first instalment of £44 million was made in 2022 and is now recognised within Other Intangible Assets in Note 8, with the remaining payment of £50 million expected during 2023. The second instalment will also be included within Intangible Assets when incurred. Both payments are eligible to be added to the RAB when incurred in accordance with the Q6 regulatory settlement.

CONTINGENT LIABILITIES

As at 31 December 2022 the Group has external contingent liabilities, comprising letters of credit, performance guarantees and other items arising in the normal course of business amounting to £2 million at 31 December 2022 (2021: £2 million).

24 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

RECONCILIATION OF PROFIT/(LOSS) BEFORE TAX TO CASH GENERATED FROM/(USED IN) CONTINUING OPERATIONS

		Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Operating activities	*Note*		
Profit/(loss) before tax		**169**	(1,792)
Exceptional items	*3*	**(14)**	31
Profit/(loss) before tax and exceptional items		**155**	(1,761)
Adjustments for:			
Net finance costs	*4*	**690**	1,522
Depreciation	*7*	**688**	720
Amortisation on intangibles	*10*	**41**	37
Amortisation on right of use assets	*8*	**41**	40
Impairment and write offs		**20**	-
Fair value loss/(gain) on investment properties	*9*	**69**	(174)
Working capital changes:			
(Increase)/decrease in trade and other receivables [1]		**(57)**	283
(Increase)/decrease in inventories		**(3)**	1
Increase/(decrease) in trade and other payables		**89**	(66)
Difference between pension charge and cash contributions		**(12)**	22
Cash generated from operations before exceptional items		**1,721**	624
Cash payments in respect of exceptional items[2]		**(2)**	(11)
Cash generated from operations		**1,719**	613

[1] The movement in trade and other payables in Cash generated from operations and payment of lease liabilities in 2021 is impacted by the unwind of the prepayments made by the Group in December 2020 to manage banking covenant ratios.
[2] These are cash payments for reorganisation costs incurred through the COVID-19 pandemic. As at 31 December 2022 all provisions for exceptional items have been fully utilised. Refer to note 19.

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 2022 £m	Cash flow £m	Transfers from non-current to current £m	Lease liabilities £m	Other non-cash changes £m	31 December 2022 £m
Current debt	**(741)**	**732**	**(732)**	**-**	**(6)[1]**	**(747)**
Non-current debt	**(14,875)**	**(546)**	**732**	**-**	**(234)[2]**	**(14,923)**
Lease liabilities	**(371)**	**60**	**-**	**(67)**	**-**	**(378)**
Total financing liabilities excluding intercompany	**(15,987)**	**246**	**-**	**(67)**	**(240)**	**(16,048)**
Intercompany	**(3,466)**	**932**	**-**	**-**	**1**	**(2,533)**
Total financing liabilities	**(19,453)**	**1,178**	**-**	**(67)**	**(239)**	**(18,581)**
Cash and cash equivalents	**216**	**69**	**-**	**-**	**-**	**285**
Term deposits	**2,410**	**(862)**	**-**	**-**	**-**	**1,548**
Net debt	**(16,827)**	**385**	**-**	**(67)**	**(239)**	**(16,748)**

	1 January 2021 £m	Cash flow £m	Transfers from non-current to current £m	Lease liabilities £m	Other non- cash changes £m	31 December 2021 £m
Current debt	(1,674)	1,545	(774)	-	162[3]	(741)
Non-current debt	(15,336)	(473)	774	-	160[4]	(14,875)
Lease liabilities	(392)	49	-	(28)	-	(371)
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)

The closing value of net debt continues to include certain bonds which are reported at an amount of £(288) million (2021: £55 million) higher than their GBP-equivalent cash redemption value as a result of hedge accounting under IFRS, together with bond issue/novation costs of £(23) million (2021: £(64) 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 £354 million (2021: £68 million), together with the RPI swap accretion of £726 million (2021: £381 million), both of which are included in nominal net debt.

1 Fair value adjustments on hedged bonds of £12 million, and movements on foreign exchange gain on translations of foreign debt of £(14) million and amortisation of issue costs, premiums and discounts of £(4) million.

2 Relates to amortisation of issue costs, premiums and discounts of £(23) million, foreign exchange gain on translations of foreign debt of £(270) million, fair value adjustments on hedged bonds of £331 million, accretion accruals of £(260) million and zero-coupon accruals of £(12) 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.

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

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

Balances outstanding with related parties were as follows:

	31 December 2022		31 December 2021	
	Amounts owed by related parties £m	**Amounts owed to related parties £m**	Amounts owed by related parties £m	Amounts owed to related parties £m
Heathrow Finance plc	**-**	**2,584**	-	3,530
Qatar Airways	**3**	**-**	5	-
	3	**2,584**	5	3,530

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

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 2022, 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 2022.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited and Heathrow Finance plc can 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] 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

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

[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 2022

	Note	31 December 2022 £m	31 December 2021 £m
Assets			
Non-current assets			
Investment in subsidiaries	2	**8,055**	8,055
		8,055	8,055
Current assets			
Trade and other receivables	3	**121**	49
Deferred income tax assets	4	**185**	161
Cash at bank and in hand	5	**11**	11
Total assets		**8,372**	8,276
Liabilities			
Non-current liabilities			
Trade and other payables	6	**(6,169)**	(5,732)
Current liabilities			
Trade and other payables	6	**(134)**	(168)
Total liabilities		**(6,303)**	(5,900)
Net assets		**2,069**	2,376
Capital and reserves			
Called up share capital	7	**11**	11
Share premium reserve		**499**	499
Revaluation reserve		**331**	331
Retained earnings		**1,228**	1,535
Total shareholder's funds		**2,069**	2,376

The loss of the Company for the year attributable to shareholders was £307 million (2021: £301 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 2023 and signed on its behalf by:

JAVIER ECHAVE
DIRECTOR

Martin Bailey

MARTIN BAILEY
DIRECTOR

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

	Note	Share capital £m	Share premium reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
1 January 2021		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**
Total comprehensive loss for the year						
Loss for the year	1	-	-	-	**(307)**	**(307)**
31 December 2022		**11**	**499**	**331**	**1,228**	**2,069**

ACCOUNTING POLICIES

for the year ended 31 December 2022

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 Finance plc 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 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:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
- Amendments to References to the Conceptual Framework
- 2018-2020 Annual Improvements to IFRS Cycle
- IAS 16 Property, Plant and Equipment (Amendment – Proceeds before intended use)
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract)
- Cost of hedging The Group has applied IFRS 9 'Cost of Hedging' principles prospectively from 1 January 2022 for the fair value movement of all hedging instruments, whereby the movements will be recognised within the equity, to the extent that they relate to the hedged item

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 2023:

- Amendments to IAS 1 Presentation of Financial Statements on classification of liabilities as current and non-current
- IFRS 17 'Insurance Contracts'
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- Amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction.
- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current liabilities with Covenants)

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.

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. In the prior year, the financial statements were prepared on a going concern basis with the existence of material uncertainty. Since then, the group has experienced strong growth of passenger numbers which has provided increased confidence over covenant compliance. 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 these financial statements. Therefore, it is accordingly appropriate to adopt a going concern basis with no material uncertainty for the preparation of these results.

Full detail of the considerations for the Company are included within the Going Concern policy for the Group accounts on page 141 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% (2021: 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 AND DEFERRED TAXATION

The tax expense 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 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.

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 company'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 future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

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.

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 2022

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.

CRITICAL JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

GOING CONCERN

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

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 4 – 'RBP Update 4') applies a CAA published interim tariff of 31.57 for 2023 and higher tariff for the rest of H7 period beyond, which is outside the CAA's charge as set out in their final proposals and further detailed at page 17. The tariff applied reflects the CAA charge tariff per final proposals but also includes an expectation of receiving a further adjustment to the Regulatory Asset Base ('RAB') of £2.5bn. Under this RBP Update 4 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 4 scenario is outside of the potential tariff levels published by the CAA in its Final Proposals, Management has performed a sensitivity analysis adopting the CAA's tariffs for H7 with no further RAB settlement and implied Weighted Average Cost of Capital ('WACC') as per the final proposals. 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 2022

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 2022 attributable to shareholders was £307 million (2021: £301 million).

2 INVESTMENT IN SUBSIDIARIES

	£m
Cost	
1 January 2022 and 31 December 2022	**8,055**

The Company's subsidiary undertakings are Heathrow (AH) Limited, which is incorporated and registered in the UK, and Heathrow Funding Limited which is incorporated and registered in Jersey.

Details of the principal subsidiary undertakings of the company 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 7.8% for regulatory period H7, up-to 8.5% at H10. Short term projections are based on the latest forecast approved by the Board in December 2022 and longer-term projections reflect the current regulatory business plan (Revised Business Plan Update 4 – 'RBP Update 4'). From the review of the position at 31 December 2022, 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 preliminary tariff position for H7 regulatory period has been provided by the CAA in their "Final Proposals" with a final determination tariff expected at the end of the first quarter of 2023. In order to reflect this uncertainty, Management have applied a sensitivity on the assumption that the CAA adopt the Final Proposal tariff, whilst also applying a mid-point WACC of 4.2% 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. Passenger numbers under the adopted Widespread Innovation scenario, detailed in the TCFD section of these Annual Report and Accounts on page 71, forecasts adequate long-term passengers to support Heathrow's own long-term cash flow forecasts.

3 TRADE AND OTHER RECEIVABLES

	31 December 2022 £m	31 December 2021 £m
Current		
Amounts owed by group undertakings[1]	**47**	49
Group relief receivable	**74**	-
	121	49

4 DEFERRED INCOME TAX ASSETS

	31 December 2022 £m	31 December 2021 £m
Deferred income tax assets	**185**	161

[1] Amounts owed by group undertakings are unsecured.

The Finance Act 2021 substantively enacted the increase in corporation tax from 19% to 25% to take effect from 1 April 2023. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

Deferred income tax assets have been recognised in respect of all temporary differences giving rise to deferred income tax assets where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. Deferred income tax assets are expected to reverse in full by 2042 against future forecast non-trading income. There are no unrecognised income tax assets.

5 CASH AT BANK AND IN HAND

	31 December 2022 £m	31 December 2021 £m
Cash at bank and in hand	**11**	11

6 TRADE AND OTHER PAYABLES

	31 December 2022 £m	31 December 2021 £m
Non-current		
Amounts owed to group undertakings - interest bearing [1,2]	**2,533**	2,267
Debenture payable to Heathrow Finance plc [1,3]	**3,636**	3,465
	6,169	5,732
Current		
Amounts owed to group undertakings - interest payable [1]	**134**	168
	134	168

7 CALLED UP SHARE CAPITAL

	£m
Authorised	
At 31 December 2021 and 31 December 2022	
9,000,000,000 (2021: 9,000,000,000) ordinary shares of 0.19p each	**17**
Called up, allotted and fully paid	
At 31 December 2021 and 31 December 2022	
5,773,555,178 (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 (2021: £1,482 million and £785 million) which have fixed interest rates of 7.57% and 3.40% respectively (2021: 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% (2021: 4.75%).

8 DIVIDENDS

No dividends were declared during the year ended 31 December 2022 (2021: £nil).

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 £61,000 (2021: £58,000) 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 had no employees (2021: 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 2022, 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 2022.

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 £15,670 million (2021: £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 profit before interest, taxation, depreciation and amortisation. EBITDA is a useful indicator as it is widely used by investors, analysts and rating agencies to assess operating performance.

	2022 £m	2021 £m
Profit/(loss) for the year	**114**	(1,613)
Add/(less): Tax charge/(credit)	**55**	(179)
Add: Net finance cost	**690**	1,522
Operating profit/(loss)	**859**	(270)
Add: depreciation and amortisation	**770**	797
EBITDA	**1,629**	527

ADJUSTED EBITDA

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

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

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

ADJUSTED OPERATING PROFIT

Adjusted operating profit 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.

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

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.

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

ADJUSTED LOSS BEFORE TAX

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

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

ADJUSTED LOSS AFTER TAX

Adjusted 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.

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

[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.

	2022 £m	2021 £m
Net debt (Note 24)	**(16,748)**	(16,827)
Less index-linked swap accretion [1]	**(726)**	(381)
Add impact of cross currency interest rate swaps [2]	**64**	124
Less bond issuance costs [3]	**(27)**	(65)
Add: IFRS 16 lease liability at 31 December relating to pre-existing leases [4]	**325**	351
Add intercompany	**2,533**	3,466
Consolidated nominal net debt	**(14,579)**	(13,332)

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.

	2022 £m	2021 £m
Regulatory Asset Base ('RAB')	**19,182**	17,474

REGULATORY GEARING RATIO

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

Gearing ratios	**2022**	2021
Total net debt to RAB at Heathrow (SP) Limited	**0.760**	0.763
Senior net debt to RAB at Heathrow (SP) Limited	**0.649**	0.646

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.