

# ANNUAL REPORT AND FINANCIAL STATEMENTS 2020

HEATHROW AIRPORT LIMITED  
ANNUAL REPORT AND ACCOUNTS

COMPANY REGISTRATION NUMBER:  
01991017

**Heathrow**

OUR PURPOSE

**TO MAKE EVERY  
JOURNEY BETTER**

OUR VISION

**TO GIVE PASSENGERS  
THE BEST AIRPORT  
SERVICE IN THE WORLD**

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## SECTION 01

# STRATEGIC REPORT

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## AT A GLANCE

### Keeping passengers and colleagues safe

We have only been able to remain open throughout the pandemic by maintaining high safety levels. We helped to develop international standards for safe travel through airports and invested in cutting-edge COVID-secure technologies and testing facilities for up to 25,000 passengers a day to help restore international travel safely.

#### Annual loss of £2bn underlines the devastating impact of COVID-19 on aviation

Passenger numbers collapsed to 22.1m, more than half of whom travelled in January and February. Overall revenue fell 62% to £1.2 billion and Adjusted EBITDA fell to £254 million. Government policies over recent months have effectively closed borders. We have had no government support, other than furlough, and have not been given relief from business rates, unlike other airports, retail and hospitality businesses. The March Budget is the key opportunity for the Chancellor to support the sector by providing 100% business rates relief, extending the furlough scheme and reversing the tourist tax.



#### We support the Prime Minister's plan to restart travel and the economy

We will work with the Global Travel Taskforce, so that Britain can become the first country in the world to safely restart international travel and trade at scale, saving thousands of jobs and reinvigorating the UK economy. The Prime Minister has a unique opportunity to agree a common international standard for safe travel with other world leaders when he hosts the G7 in June.



#### 28% decline in cargo volumes shows the cost to the economy of shutting down aviation

Passenger planes from Heathrow are the UK's global trading network, carrying British exports and inbound supply chain. Economic recovery will be held back until long haul passenger flights are restarted, especially to key markets such as the US.

## Decisive action to weather the storm

Airports have very high fixed costs. We acted quickly to cut gross operating costs by nearly £400m, reduced capital expenditure by £700m and raised £2.5bn in funding including a £600m capital injection. We ended the year with £3.9bn of liquidity, enough to see us through until 2023.



## Building Back Better

We remain focused on decarbonising aviation. We became carbon neutral in 2020, and have been working to make decarbonising aviation a flagship goal for COP26 ahead of a global agreement for net-zero emissions by 2050 at the ICAO general Assembly in September 2022.



## Heathrow expansion is mission critical to delivering "Global Britain"

With the Supreme Court reinstating the Airports National Policy Statement, we will consult with investors, Government, airline customers and regulators on our next steps.

## CAA must act now to unlock lower charges and more investment for consumers

If the CAA acts to approve a RAB adjustment, to recover regulatory depreciation and provide a fair balance of risk and reward, they can unlock lower airport charges and higher investment in passenger service and resilience.



## CHAIRMAN'S LETTER



Dear All,

The magnitude of the COVID-19 crisis we are going through has far surpassed anything that any of us could have imagined 12 months ago. The impact on the global aviation sector has been seismic. UK aviation itself was grounded not once, but three times during 2020.





At Heathrow, passenger traffic plummeted 73% to 22.1 million, the lowest volume we have seen since 1975 – and it would have been much lower if January and February hadn't been relatively normal months. Our 2020 Adjusted EBITDA is hardly 15% of what it was in 2019. Our French competitor has overtaken us as busiest airport in Europe. A fierce battle for survival continues to take place today as new strains of the virus emerge and tighter travel restrictions come into force.

We entered this crisis with a robust financial standing and a strong liquidity position. That was not luck, but a testament to our cautious financial management and the ongoing commitment of our shareholders. Our response to COVID-19 has been swift from the outset. We quickly implemented decisive actions to protect our passengers, colleagues and reduced our costs; we positioned ourselves as well as we could to win the recovery and have kept a resolute focus on building back better in response to this pandemic.

Throughout 2020, keeping people safe remained our first non-negotiable priority. We invested early to transform Heathrow into a COVID-secure airport, deploying cutting-edge sanitising technologies, trialling new rapid testing methods and mandating face coverings throughout the airport. All the while, we kept the UK's only hub open to repatriate Britons from around the world and ensure vital supply lines could bring much needed PPE and medical equipment into the country. None of that would have been possible without the commitment and dedication of our colleagues, to whom I want to address a heartfelt thank you.

At the same time, we made significant progress in reducing costs, cutting £303 million of net operating costs and cancelling or deferring £700 million of capital expenditure.

As we close the most challenging year in our history, our business fundamentals remain strong. We made the most of our hub status and cargo facilities to protect our revenue and increased our London market share. Our regulatory framework means that our building blocks will be reset in 2022 to reflect our current market and trading conditions; this limits our revenue exposure to the next 12 months. Our financing platform has proved its resilience, allowing us to secure a waiver from our creditors, a capital injection into the Regulated Group and to strengthen our liquidity to £3.9 billion. Sustainable growth has remained core to our strategy and actions towards our colleagues and suppliers while we continued to push for growth in Sustainable Aviation Fuels in the year that the UK hosts the COP26 global climate change summit. Finally we also welcomed the Supreme Court decision, unanimously ruling the Airports National Policy Statement as lawful and legal Government policy. In the long term, we will need additional capacity to provide the international connectivity that will be required to deliver the government's Global Britain ambitions.

While we have done everything we could to be best positioned for what comes next, an uncertain path lies ahead. Ministers must finally take action to support the UK's world-class aviation industry with a clear and comprehensive financial support package. The Treasury has provided billions of pounds of support to other sectors that did not need it while aviation has been left to fend for itself.

The role the UK's aviation industry needs to play in driving the UK's economic recovery and supporting the Government's Global Britain and levelling-up ambitions cannot be understated. But to play our part, the sector must survive this crisis – and that means meaningful Government support must finally be forthcoming.

While the Government cannot know how the virus will evolve, it can take a lead to establish a common international standard that enables safe travel and trade to resume in the months ahead – we continue to urge Ministers to grip this issue, particularly in the year the UK hosts the G7 summit.

In addition, the UK's reputation as a low-risk, well-regulated market is also under threat. Urgent action by the CAA to reaffirm the principles of the regulatory settlement, and reassure investors that their investments are protected, is required if further investment into UK infrastructure is to be secured. Without this action, not only will investing in the UK become less attractive, but airport charges will increase and the passenger experience will deteriorate.

#### LORD PAUL DEIGHTON

Chairman



OUR RESPONSE  
TO COVID-19





## The COVID-19 outbreak represents a seismic challenge for the aviation industry, including Heathrow.

We recognised the need to reorganise and adapt our operations to remain open throughout the crisis, while ensuring that passenger and colleague safety remained our highest priority. More information on our response to COVID-19 can be found on the following pages:

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## KEY FINANCIAL INDICATORS

### REVENUE

**£1,208m**

Revenue is an indicator of our top-line growth. It consists of aeronautical income, which is generated from fees charged to airlines for use of the airport's facilities, and retail and other income from a variety of other sources. Revenue was heavily impacted by the COVID-19 related lockdowns and by Government travel restrictions in 2020; declined 59.4% in the year.	2020	<b>1,208</b>
	2019	<b>2,976</b>
	2018	<b>2,874</b>
	2017	<b>2,828</b>

### ADJUSTED EBITDA<sup>1</sup>

**£254m**

Adjusted EBITDA is an indicator of how we are delivering top-line revenue growth while remaining efficient and controlling operating costs. Adjusted EBITDA is profit before interest, taxation, depreciation and amortisation, excluding fair value gains and losses on investment properties and exceptional items. The decline in revenue offset by cost savings, realised through management initiatives, resulted in a 86.1% reduction in Adjusted EBITDA.	2020	<b>254</b>
	2019	<b>1,828</b>
	2018	<b>1,792</b>
	2017	<b>1,752</b>

### (LOSS)/PROFIT BEFORE TAX

**£(1,529)m**

(Loss)/profit before tax is a measure of total return generated before taxation. The loss before tax was £1,529 million in the year.	2020	<b>(1,529)</b>
	2019	<b>819</b>
The loss before tax includes non-cash fair value of our investment properties and financial instruments of £412 million and £202 million respectively and exceptional costs of £184 million.	2018	<b>602</b>
	2017	<b>804</b>

### REGULATORY ASSET BASE<sup>1</sup>

**£16,492m**

The Regulatory Asset Base ('RAB') is a regulatory construct, based on predetermined principles not based on IFRS <sup>2</sup> . 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.	2020	<b>16,492</b>
	2019	<b>16,598</b>
	2018	<b>16,200</b>
	2017	<b>15,786</b>

The RAB decreased 0.6% in the year due to the capital investment being lower than the assumed ordinary depreciation as a result of a decrease in passenger numbers.

## KEY OPERATIONAL INDICATORS

### PASSENGERS

**22.1m**

The sum of all arriving, connecting and departing passengers.	2020	<b>22.1</b>
In 2019, we welcomed a record 80.9 million passengers.	2019	<b>80.9</b>
The impact of COVID-19 in 2020 led to a 72.7% decrease in passenger numbers.	2018	<b>80.1</b>
	2017	<b>78.0</b>

### PASSENGER SATISFACTION

**4.24<sup>3</sup>**

An independent passenger satisfaction survey that compares our performance against circa 350 airports worldwide. Passengers rate their experience on a scale from 1.00 to 5.00, where one is 'poor' and five is 'excellent'. Our vision is to give passengers the best airport service in the world. In 2019, we achieved a record high level of passenger satisfaction, however the ASQ survey was temporarily suspended in March to limit the spread of COVID-19, before resuming in August. Q4 2020 result was also our best Q4 score (4.24).	2020	<b>4.24<sup>3</sup></b>
	2019	<b>4.17</b>
	2018	<b>4.15</b>
	2017	<b>4.16</b>

### DEPARTURE PUNCTUALITY

**85.7%**

The number of flights that depart from their stand within 15 minutes of the scheduled time.	2020	<b>85.7%</b>
	2019	<b>78.5%</b>
Due to the reduction in passenger demand and flights resulting from the COVID-19 pandemic departure punctuality improved to 85.7% in the current year.	2018	<b>77.6%</b>
	2017	<b>80.2%</b>

### BAGGAGE CONNECTION

**99.2%**

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'.	2020	<b>99.2%</b>
	2019	<b>99.0%</b>
	2018	<b>98.8%</b>
99.2% of bags successfully connected in the current year.	2017	<b>99.0%</b>

### LOST TIME INJURIES

**0.14**

We measure the number of lost time injuries for every 100,000 hours worked in the last 12 months. In their working life a person works an average of 100,000 hours.	2020	<b>0.14</b>
	2019	<b>0.34</b>
We want everyone at Heathrow to go home safe and well to their loved ones at the end of each day. Lost time from injuries reduced to 0.14 in 2020.	2018	<b>0.33</b>
	2017	<b>0.48</b>

<sup>1</sup> Alternative Performance Measures ('APMs'): the performance of the Company is assessed using a number of APMs. Management believe that APMs provide investors with an understanding of the underlying performance of the Company, 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 169 of the financial statements.

<sup>2</sup> There is no GAAP difference between International Financial Reporting Standards (IFRS) and Financial Reporting Standard 102 (FRS 102).

<sup>3</sup> The passenger satisfaction score for Q4 2020. This was also our best Q4 score.

# HISTORY OF HEATHROW

For over 70 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.

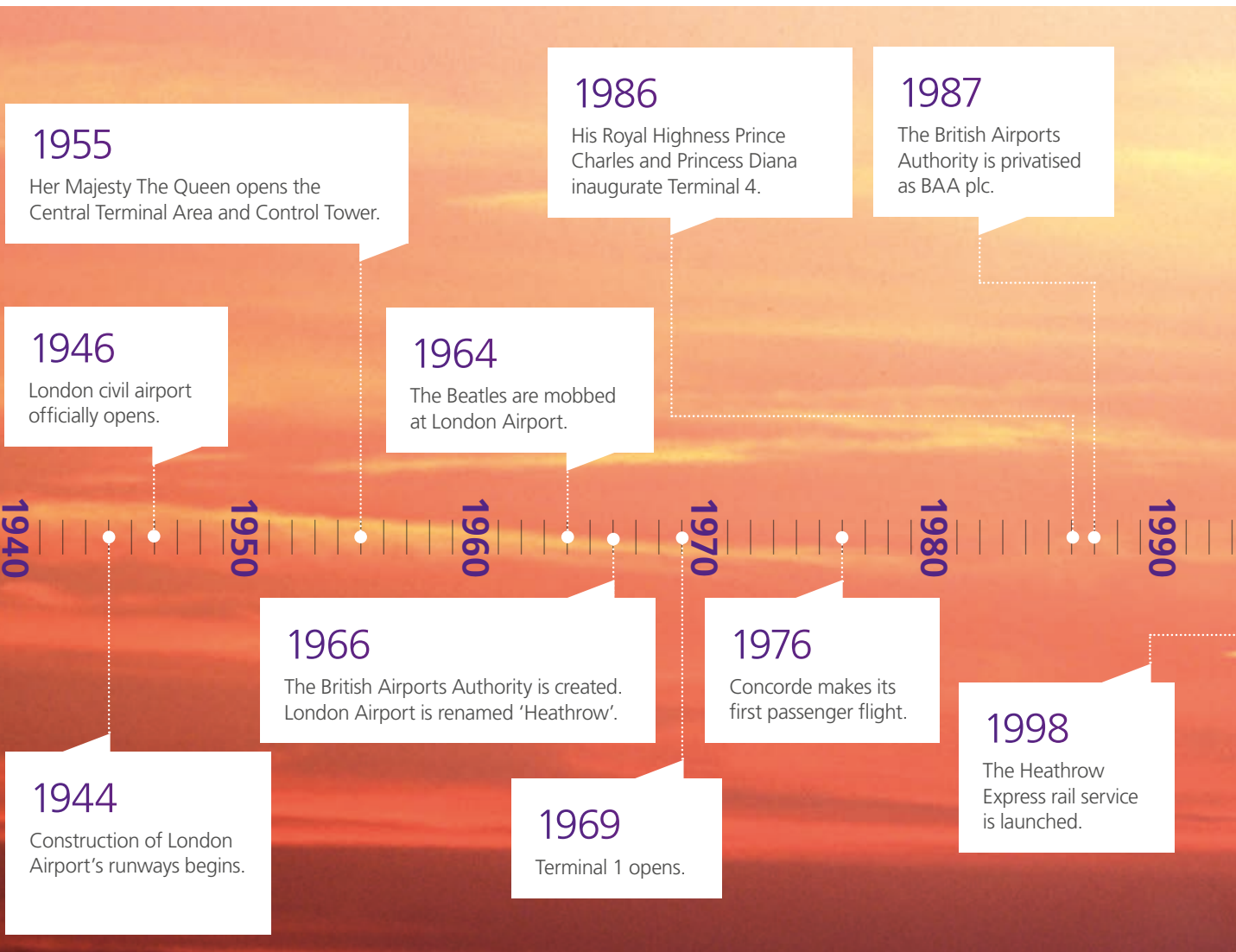
During World War II the Government requisitioned land in and around the ancient agricultural village of Heath Row, including Fairey's Great West Aerodrome, to build RAF Heston, a base for long-range troop-carrying aircraft bound for the Far East. An RAF-type control tower was constructed and a 'Star 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 2019, there were over 80 airlines operating at Heathrow Airport offering 110 long-haul and 98 short-haul routes, with Heathrow Airport handling a record 80.9 million passengers.

Since the start of 2020, the COVID-19 pandemic has had a significant impact on the aviation industry. During this period, we used our available capacity to prioritise cargo flights with specific medical cargo 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.

Heathrow's unique position as the UK's only hub airport provides demand resilience that means that the airport is well placed to return to growth once passenger demand increases and travel restrictions are eased. We look forward to continuing our story and continuing to connect all of the UK to global growth.

## 1999

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

## 2008

Terminal 5 is officially opened by Her Majesty The Queen in March; the first commercial A380 flight arrives at Heathrow UK.

## 2010

Demolition work started on Terminal 2 to make way for its £1 billion replacement which opens on 4 June 2014.

## 2015

Terminal 1 closed.

## 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.

## 2000

## 2010

## 2020

## 2007

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

## 2009

Terminal 4 undergoes a major refurbishment to improve facilities.

## 2014

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

## 2016

Heathrow celebrates its 70th anniversary.

## 2018

MPs overwhelmingly vote in favour of Heathrow expansion.

# OUR BUSINESS



## WHAT WE DO

We are a service business which seeks to give passengers the best airport service in the world. Heathrow is the UK's only hub airport. Hub airports combine direct passengers, transfer passengers and freight to enable long-haul aircraft to fly to destinations all over the world. These destinations could not be served with regular, year round flights by point-to-point airports which rely on local demand alone. In 2019, we were the seventh busiest airport globally and the busiest airport in Europe in terms of total passengers. In 2020 we have dropped significantly from this position, due to the impact of the COVID-19 pandemic.

In 2020, we served 22.1 million passengers (2019: 80.9 million), with the sharp decrease in passenger numbers was due to the impact of COVID-19.

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. We were named 'Best Airport in Western Europe' by Skytrax for the fifth time in 2019, and in 2020 we were named Best Airport for Shopping for the eleventh year running.

We benefit from countercyclicality. In times of reduced passenger traffic across the industry, airlines have tended to consolidate traffic towards hubs such as Heathrow Airport. Our position as the UK's only hub airport ensures that Heathrow remains a resilient airport, maintaining the UK's critical trade and passenger connectivity during COVID-19. This underlying characteristic of Heathrow means that the airport is well placed to return to growth once passenger demand increases and travel restrictions are eased.

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 1.2 million tonnes of cargo valued at over £147 billion passing through it in 2020 (2019: 1.6 million tonnes, valued at £141 billion). This has included PPE, testing kits, respirators and other essential medical equipment, imported to meet the nation's needs during the global pandemic.

This is underpinned in 2020 by a cargo operation which has allowed airlines to switch their operations to cargo-only and/or 'freighters' (passengers planes temporarily converted to freighters). Over 23,000 cargo-only flights travelled through Heathrow over the course of the year, a near seven-fold increase compared to 2019.

Sustainability is core to our strategy. We launched Heathrow 2.0 in 2017, a long-term sustainability strategy which sets out a series of ambitious targets to deliver sustainable growth and to drive positive change throughout the aviation industry, as well as at the airport itself.

We remain committed to taking action to protect and support people, economy and environment. In 2021 we will revise and update our strategy to ensure it helps us meet the expectations of our stakeholders and retain our licence to operate, while reducing environmental and social risks to our business. We will share the detail of a revised and updated Heathrow 2.0 sustainability strategy later in 2021.

Further details of our commitment to sustainable growth can be found on pages 31 to 45.



## INVESTMENT AND INFRASTRUCTURE

We have invested over £12 billion of private money, at no cost to taxpayers, transforming Heathrow's infrastructure since privatisation in 2006. In 2019, we invested £856 million to ensure that Heathrow remained passengers' preferred airport. In 2020, in response to COVID-19, we enacted a reduced capital plan and have invested £521 million, the majority of this being in a variety of programmes to ensure the safety and resilience of the airport.

### Terminals

Each of our four operational terminals is either relatively new or recently refurbished.

Due to the reduction in passenger demand resulting from the COVID-19 pandemic, in April 2020, operations from Terminals 3 and 4 were temporarily consolidated into Terminal 2 and Terminal 5.

We have a total of approximately 58,600 square metres of retail space served, prior to COVID-19, by over 450 retail outlets. Many of our retail outlets closed in late March 2020, leaving only essential retailers open.

### Runways

Prior to the COVID-19 pandemic we operated two parallel runways, generally operating in 'segregated mode', with arriving aircraft allocated to one runway, and departing aircraft to the other. Given the effects of COVID-19 on passenger numbers, in April 2020 we moved to single runway operations, with the consolidation of passenger operations into two terminals, while maintaining enough flexibility to ramp up as passenger demand returns.

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 2020 we operated at only 41.9% of this cap, given the effects of COVID-19 on passenger numbers.

### Other infrastructure

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

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

## REGULATORY ENVIRONMENT

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

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

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

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

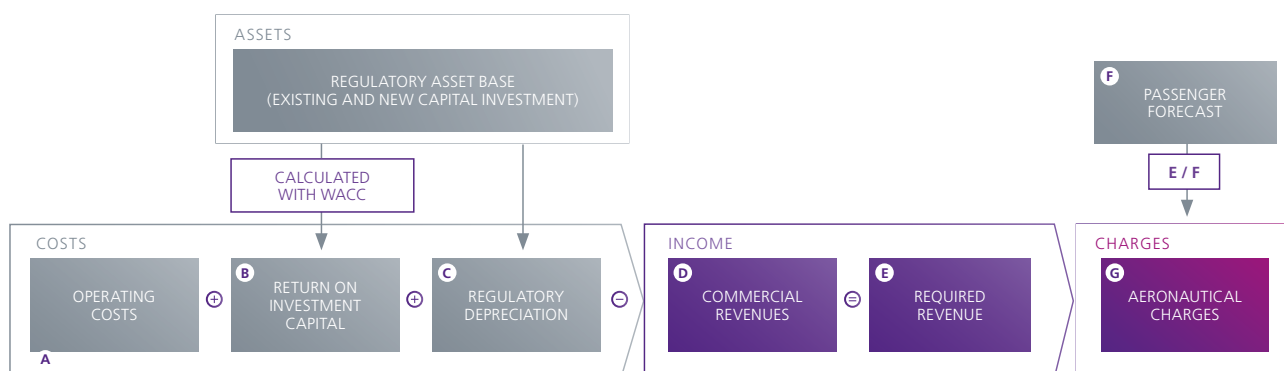
This is calculated as the sum of all our forecast costs (including operating expenditure, the required return using the cost of capital determined by the CAA on the forecast RAB and regulatory depreciation) less projected non-aeronautical revenue.

The resulting revenue requirement is divided by forecast passenger numbers to produce the per passenger maximum allowable yield.

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



Building blocks for maximum allowable yield calculation

## 2020 REGULATORY DEVELOPMENTS

### COVID-19 related RAB adjustment

In July 2020 we applied to the CAA for an adjustment to the Regulatory Asset Base ('RAB') for an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. The adjustment is designed to secure the recovery of historic investment efficiently incurred as well as losses in return as per economic parameters used to set our allowed cost of capital. This proposal seeks the enforcement of the protection included in our settlement against unlimited downside triggered by exceptional circumstances. In October, the CAA published a consultation requesting further evidence that this action was required. In response to the CAA's consultation we set out the need for the urgent adjustment as prescribed in our license and how our proposed mechanism would ensure that Heathrow could continue to operate in the interests of users while smoothing the impact of this change on passengers over future years.

In February, the CAA published a further consultation, recognising the existence of exceptional circumstances as defined in our license and accepting that doing nothing was not an option as well as laying out its two preferred solutions. We have proposed a reasonable adjustment that allows the CAA to act now in order to lower future charges and maintain investment in the airport – protecting jobs and avoiding rapid degradation of service. The CAA must ultimately take a decision – but failure to act in the right way and in a timely manner will see confidence in effective regulation evaporate. This would not just affect Heathrow, but will undermine the perception of investing in the UK and the Government's Global Britain agenda.

### H7 and Regulatory timetable

The H7 period is due to start on 1 January 2022. In December we submitted our Revised Business Plan ('RBP') to the CAA. This set out our plans for the H7 period following consultation with airlines and the publication of further policy views from the CAA through 2020. Our plan seeks to maximise passenger growth and minimise airport charges to support airlines in the recovery. The plan assumes our proposed RAB adjustment is fully implemented, which is a critical factor for our plan to be debt financeable and equity investable and also unlocks our capacity to use financial levers to keep prices as low as possible. Our RBP will form the basis of the CAA's decision making for the H7 period. Our RBP proposes a minimum five-year regulatory period from 2022-2026 as the basis of our H7 framework. We have proposed evolutions to the regulatory framework following the impact of COVID-19 to ensure that the framework is robust to future uncertainty and appropriately balances risk and reward in the H7 period and beyond. These evolutions include a proposed price control adjustment mechanism which automatically adjusts if revenues deviate from forecast by over 8% by making an adjustment to the RAB. Additionally, we are proposing changes to ensure we can mitigate any unforeseeable future costs caused by the pandemic and changes in relevant Health and Safety legislation.

The CAA is continuing to consult on its proposals for the regulatory framework which will be in place for the H7 period. We are expecting further consultations from the CAA in early 2021 focusing on policy development in areas such as capital efficiency and the recovery of early expansion costs. We are expecting the CAA's Initial Proposals, which will provide its preliminary view on the price cap and conditions for the H7 period in Summer 2021.

## GENERATING REVENUE

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

### 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 include three key elements:

#### Passenger charges

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

#### Movement charges

Until 2019, landing charges were levied for substantially all aircraft (with certain diplomatic and other flights being exempted). These are calculated in accordance with the certified maximum take-off weight, and adjusted, where applicable, in accordance with each aircraft's noise-rating, emissions and the time of day. Incentives are provided for quiet and clean aircraft. Airlines pay a penalty for movements in the core night period (23.30 to 06.00). Airlines that operate unscheduled flights within the night-time period are charged an amount five times greater than the daytime charge.

From 2020, movement charges are now levied instead of landing charges. The charge per movement is around half of what the landing charges were previously, however is applied to each aircraft on both take-off and landing. The noise rating component of these charges also includes a multiplier effect for any movements that are unscheduled between 23.30 and 06.00.

#### 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

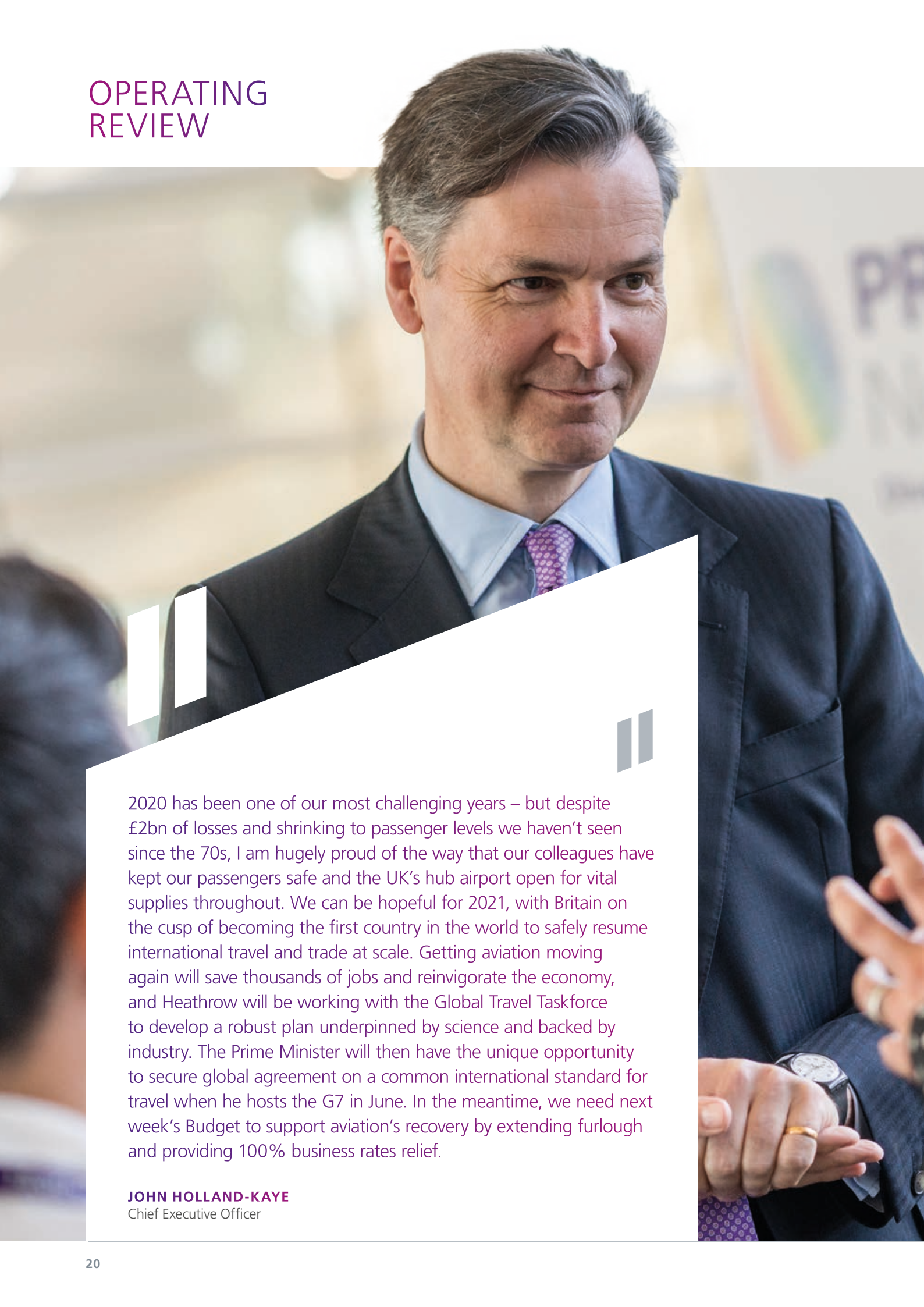
The 'Single Till' means that higher retail and other income reduces per-passenger charges. Retail and other income is generated from a variety of sources. These include:

- Concession fees from retail operators.
- Direct income from car parks, advertising revenue and premium products.
- The rental of airport property space, such as aircraft hangars, warehouses, cargo-storage facilities, maintenance facilities, offices and airline lounges.
- The provision of facilities such as baggage handling and passenger check-in.
- Fare revenue from the Heathrow Express rail service.

YEAR ENDED 31 DECEMBER 2020

AERONAUTICAL £647m		RETAIL £234m		OTHER £327m	
TOTAL REVENUE £1,208m					
RETAIL CONCESSIONS £97m		CATERING £19m	OTHER RETAIL £43m	CAR PARKING £40m	OTHER SERVICES £35m
TOTAL RETAIL REVENUE £234m					
OTHER REGULATED CHARGES £118m		HEATHROW EXPRESS £23m		PROPERTY AND OTHER £186m	
TOTAL OTHER REVENUE £327m					

## OPERATING REVIEW



2020 has been one of our most challenging years – but despite £2bn of losses and shrinking to passenger levels we haven't seen since the 70s, I am hugely proud of the way that our colleagues have kept our passengers safe and the UK's hub airport open for vital supplies throughout. We can be hopeful for 2021, with Britain on the cusp of becoming the first country in the world to safely resume international travel and trade at scale. Getting aviation moving again will save thousands of jobs and reinvigorate the economy, and Heathrow will be working with the Global Travel Taskforce to develop a robust plan underpinned by science and backed by industry. The Prime Minister will then have the unique opportunity to secure global agreement on a common international standard for travel when he hosts the G7 in June. In the meantime, we need next week's Budget to support aviation's recovery by extending furlough and providing 100% business rates relief.

**JOHN HOLLAND-KAYE**  
Chief Executive Officer

## REVIEW OF THE YEAR

2020 has been the toughest year by far in Heathrow's 75-year history. The year started strongly, with record passenger numbers in January, building on a record 80.9m passengers served in 2019. We were gearing up for further growth as we prepared the planning application for Heathrow Expansion, in line with the Airports National Policy Statement ('ANPS'), which was given overwhelming and cross-party parliamentary approval in 2018. In January our airport operation became carbon neutral, and in early February, we helped to launch the UK's Sustainable Aviation roadmap, the first time that an entire national aviation industry had committed to net zero emissions by 2050 and laid out a plan to get there.

In mid-February, the Court of Appeal suspended the ANPS, (a ruling which was reversed in December by the Supreme Court), and the first cases of COVID-19 started to appear in Europe. Through March, passenger numbers collapsed completely as COVID-19 became a global pandemic, countries closed their borders and the UK went into the first lockdown. In April passengers had fallen to only 3 percent of 2019 levels.

Our first concern was the safety of colleagues and passengers. We worked quickly with other airports and airlines around the world to set consistent high standards of COVID safety in the end to end passenger journey, and to implement them at Heathrow.

We acted quickly and decisively in March to conserve cash, stopping capital expenditure and implementing a £300m net operating cost reduction programme and suspended all work on expansion while retaining key talent. This change process was made more difficult through being managed remotely by people working from home.

At the same time, we worked hard to protect revenues and bring in new airlines, including dedicated cargo freighters. We supported the UK Government in developing a risk-based approach to reopening borders safely, which resulted in the introduction of travel corridors in June.

While this allowed travel to restart, it became clear in mid-August that the recovery had stalled so we started making plans for further cost reduction and began implementing in October. These included cutting all our costs to the lowest level we safely could, including further management reductions, closing our main office and suspending our free travel zone. We also changed our pricing to link it more to aircraft movement and cargo, and slightly less dependent on passenger numbers. By acting early, we have been able to get the maximum cash benefits for 2021.

The change programme has resulted in very difficult choices: a reduction of around a third of our management team and around a quarter of our frontline choosing to leave under voluntary severance. As a significant local employer, we are very conscious that job losses in frontline roles have a devastating impact on the community around Heathrow. We have therefore chosen to cut our payroll cost by reducing legacy terms and conditions to above market levels and the London Living Wage, which has allowed us to avoid frontline compulsory redundancies. We are very grateful that 100% of our frontline colleagues have accepted these new terms.

After a second lockdown in November, the market started to recover, only for further restrictions to be put in place in mid-December as new variants of COVID-19 emerged around the world. We are currently in a third lockdown and under tight border controls to protect against new variants, but the rapid roll out of vaccinations gives the prospect of bringing the COVID-19 crisis to an end and the return to a more normal life.

The result of acting quickly on revenues and capex and beating our £300 million net cost reduction target has been that we have ended the year with only a slightly lower EBITDA than forecast in June despite lower traffic – which is a great credit to the hard work of our team in delivering the plan. We have been well supported by shareholders and creditors and have successfully raised £1.7 billion of debt and injected £600 million of capital into the regulated business.

The market remains extremely uncertain, but we have £3.9 billion of cash, which would be sufficient to take us well into 2023 under our current traffic forecast or through 15 months even without any revenue. This is as strong a position as we could have hoped for. We have had no action from Government, other than the national furlough scheme, and no support as yet from the CAA to enforce protections assumed in our license, though they have recently recognised that they need to take action in these exceptional circumstances.

Now, after 12 months with very few passengers, we are only just starting to see daylight at the end of a very long tunnel. While so much has changed, we still retain some of the strengths from February 2020. Heathrow, the UK's only hub airport and biggest port, has a critical role to play in rebuilding the national economy and connecting all of Britain to global growth.

Despite the pandemic, we have achieved record levels of customer service and resilience, which reflects the strength of our service culture. We have done this by working closely with our Team Heathrow partners to a common plan to help us all come through this crisis with a more efficient and agile operation which is designed around the needs of our passengers.

We have continued to work on a plan for net zero carbon aviation and to build a 'coalition of the willing' across the world; during 2020, airlines in the US, Middle East, Hong Kong and Russia have signed up, and the entire European aviation sector has announced a plan for net zero aviation.

Most important of all, we have been able to retain a talented team at Heathrow who have demonstrated great versatility, resilience and teamwork in coming through 2020 and have grown in capability. They are the best reason for confidence in our future.

## BREXIT

In December, the UK and EU agreed a Comprehensive Trade Agreement (the 'Deal') that came into force on 1 January 2021. The Agreement outlines new rules for living, working and trading between the two parties.

Aviation was identified at early stages as a priority for both sides. The Agreement includes an aviation chapter, providing the rights for flights to continue between the EU and UK without disruption. All other air services between the UK and rest of the world countries have been rolled over or renegotiated, meaning that flights can continue to all markets with certainty. The aviation chapter also outlines ambitions for cooperation on future air traffic management, aviation security and consumer protection, while rules on airline ownership and control will be reviewed after 12 months.

From a border perspective, the UK's Border Operating Model ('BOM') outlines a phased approach for cargo to limit immediate changes at the UK border, with full checks beginning from 1 July 2021. The UK Government also confirmed that EU citizens can continue to use electronic gates at immigration upon arrival into the UK. We are working closely with Government and industry to support Global Britain post-Brexit and ensure any longer-term disruption is minimised and adequately managed.

From a retail perspective and ahead of the end of the transition period, the Government announced changes to airside tax-free sales of all non-excise goods and the withdrawal of the VAT Refund scheme from January 2021. The existing tax-free status is a key purchase driver among passengers, particularly in high-spend categories such as luxury and technology. The VAT Refund scheme incentivises international residents to visit the UK and spend in the UK retail sector which benefits the wider economy and 'UK PLC'. It is also a material source of revenue subsidising passenger charges.

These changes will impact our pricing proposition materially and are therefore a significant and credible threat to our income. Removing tax free shopping would lead to a significant reduction in retail income of circa £200 million annually. Removing tax free shopping would lead to a c.15% increase in passenger charges from 2022, due to increased difficulty to remain price competitive versus foreign airports and destinations, as well as the knock-on impact of passengers using the VAT refund scheme at the airport. Heathrow, World Duty Free, and Global Blue, have launched a Judicial Review on the Government's decision for which a hearing took place in late February.

## KEY MANAGEMENT CHANGES

Rachel Lomax stepped down from the HAHL Board on 23 February 2020, having served just over nine years on the Board. Following a reorganisation of the business that took place on 17 March 2020, Stuart Birrell resigned as Heathrow's Chief Information Officer and as a director of Heathrow Airport Limited and LHR Airports Limited, Emma Gilthorpe's role changed from Expansion Director to Chief Operating Officer, Andrew MacMillan's role changed from Chief Strategy Officer to Chief Carbon & Strategy Officer and Chris Garton's role changed from Chief Operating Officer to Executive Director, Solutions. Olivier Fortin was appointed as the HAHL Board's Climate Change Director on 27 January 2021.

## OUTLOOK

The outlook for our Adjusted EBITDA performance in 2021 remains consistent with the revised guidance published in our December Investor Report on 18 December 2020. We forecast 37.1 million passengers travelling through Heathrow in 2021 or a 54% reduction compared to 2019. Our forecast assumes no further recovery during the first quarter and around two thirds of the annual volume forecast materialising during the second half of year.

Given the more gradual recovery envisaged, further steps to reduce our costs were taken in October. Terminal 4 will remain non-operational throughout 2021 while the ramp up of Terminal 3 will remain contingent on traffic recovery. In the absence of meaningful Government support, we reduced our people costs further including additional reductions in our management roles and removal of all legacy allowances.

Taking into account the mitigations put in place throughout 2020, we do not forecast any covenant breach during 2021 under our current traffic scenario. Given the degree of uncertainty around traffic recovery, we have also considered a severe but plausible downside scenario whereby traffic reduced to 27 million passengers in 2021. In this scenario, we concluded that sufficient mitigations would remain within management control to avoid any covenant breach. However, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry and the fact that, under other severe but plausible downside scenarios, the Group may need to take additional action indicates the existence of a material uncertainty.

## JOHN HOLLAND-KAYE

Chief Executive Officer

24 February 2021



# OUR STRATEGY

COVID-19 continues to represent a seismic challenge for the aviation industry, including Heathrow. Despite this, our vision remains to give passengers the best airport service in the world. This vision has both helped to guide our COVID-19 response and make key changes to our business to secure future success.

## RESPONDING TO AN INDUSTRY IN CRISIS

Heathrow's market saw dramatic, sudden shifts through multiple national lock-downs and worldwide quarantines. Uncertainty continues as to when stability and growth will return.

In response, our strategy has focused on what we can control and what will maximise opportunities with recovery. We have reprioritised around controlling costs and ensuring financial stability. We have continued to listen to our passengers. They still want direct flights to destinations they want, from a choice of airlines, at a price they are willing to pay. COVID-19 has heightened their expectations especially around ease of new processes, cleanliness and reassurance. It has accelerated the need for digital relationships and created new needs such as testing services. We have taken a lead in developing responses to this in the global aviation industry.

We reoriented the immediate business plan as the impacts of COVID-19 and the suspension of the Airports National Policy Statement hit in spring 2020. We have focused on Protecting the Business, Winning the Recovery and Building Back Better as phases. These continue to pursue our strategic priorities but with a focus balanced across the stage of recovery we find ourselves in.

## PROTECT THE BUSINESS

Safety and security remain our first and non-negotiable priorities. COVID-19 continues to have a significant impact on our business and recovery is expected to be much more gradual than previously thought. We have therefore implemented several steps to reduce our costs, preserve liquidity and protect our financial covenants.

**Extending our cost reduction programme** – Like most infrastructure businesses our cost base is largely 'fixed', while this has been a very efficient model when we have had stable demand, it is not suited to major changes in demand. In 2020 we have significantly reduced our cost base and started to make it more variable. By the end of 2020 we reduced our gross operating costs by circa £400 million compared to our December 2019 Investor Report forecast.

Alongside organisational changes as detailed below, we also consolidated our operations into two terminals and one runway. We will continue to balance our infrastructure and terminal occupancy with demand. We've also renegotiated most of our supplier contracts and are reviewing all contracts to find opportunities for cost reduction. The only major area where we have not been able to reduce cost is in governmental costs such as Business Rates.

We also significantly reduced our capital by £700 million, to preserve cash with investment focused on the safety and resilience of the airport. For instance, we invested in resurfacing the southern runway, which is typically challenging to do in busier operational periods.

**Reorganising the business** – We made immediate changes to implement temporary pay cuts, bonus cancellations, recruitment freezes and to maximise the use of the Government furlough scheme. We have made significant changes to our organisational design. We have also undertaken work to ensure all salaries are aligned to market rate to ensure savings become sustainable through the recovery. Our focus has been to protect jobs through this crisis and to offer every frontline colleague a job at a market rate salary above the London Living Wage. Through 2020 our management team reduced by around a third, while around a quarter of our frontline colleagues chose to leave under voluntary severance as a result of implementing new market aligned terms and conditions.

**Focusing on efficiency** – We are undertaking a significant corporate transformation to drive efficiency in key business processes and systems. We seek to improve the efficiency of the airport through standardisation of processes, particularly at known pinch points including security.

**Preserving liquidity and protecting our financial covenants** – We took the proactive step to raise £1.7 billion from global debt capital markets to strengthen our liquidity in response to the crisis. In addition, we also secured a new £750 million facility at ADI Finance 2. The facility's net proceeds were injected into the Heathrow Finance Group to provide further headroom to our group gearing covenant level including £600 million pushed into the Heathrow SP Group that was used to optimise our working capital position.



**ANDREW MACMILLAN**  
Chief Strategy Officer



## WIN THE RECOVERY

Creating an environment where passengers feel safe and confident to fly is fundamental to winning the recovery. We have worked with the Government to implement the necessary standards and procedures as the pandemic has evolved. We have put in significant measures to keep passengers and colleagues safe, including UK robots, UV handrail technology, Perspex screens and hygiene technicians. Since April 2020, we have encouraged the introduction of a Common International Standard for pre-departure testing which will allow international travel and trade to get back to normal as soon as possible. We support all measures that will bring the COVID-19 crisis to an end, but blanket hotel quarantine is effectively the closure of our borders which carries huge ramifications for Britain and the aviation sector.

**Testing regimes and vaccine development** – We trialled pre-departure testing with four of our transatlantic carriers – American Airlines, British Airways, United Airlines and Virgin Atlantic. This helped the industry and Government to evaluate which pre-departure testing approach is practical and safe enough to replace quarantine and other travel restrictions. We have also developed a testing pilot for airport colleagues, where around 2,000 Heathrow colleagues will regularly take part in rapid lateral flow tests to help identify those who may unknowingly be carrying the virus.

**Working to attract as much traffic as possible** – To offer as many flights to as many destinations as possible, our work includes;

- Incumbent airline build-back – supporting 80% of incumbent airlines flying, although on reduced schedules.
- Airline Consolidation of London operations – British Airways, Virgin Atlantic and numerous other airlines have chosen to fly from Heathrow rather than other London airports, albeit this will unlikely be a permanent move.

- Targeting new entrants – working closely with airline partners to encourage hand backs of unused slots because of the suspension of the slot usage rule to provide new entrants with an opportunity to fly from Heathrow for the first time.
- Supporting our cargo business – the best performer during the pandemic with a c.8x growth in cargo-only movements. We will develop a more ambitious cargo strategy which could help to diversify our future revenue and rebalance our strategic exposure to passenger demand.

### Responding to passenger needs

– We are working to mitigate the impact that the Government policy on VAT will have on our airport and retailers, which is in essence a tourist tax. In similar scenes to the devastation on the high street, a number of our retailers have also exited the airport. Where possible, we are seeking to replace these retailers with new and fresh options for our passengers. Our passengers have also expressed a desire for digital options to support them throughout their airport experience, meaning they can have a wider selection of products with a touch-free experience.

## BUILDING BACK BETTER

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

**Sustainable growth** – Taking the carbon emissions out of flying remains both an ethical and a business imperative for Heathrow. After achieving the goal of our airport operation becoming carbon neutral, we are playing a leadership role to create momentum to solve the problem across our scope 3 greenhouse emissions. The Committee on Climate Change ('CCC') has recommended no airport expansion unless the industry proves that Sustainable Aviation Fuel ('SAF') works. We are working on advocating action by the UK Government. The UK will host COP26 this year which provides an important forum. We were involved in developing the Terra Carta, a green recovery charter for business led by HRH, The Prince of Wales.

We look forward to contributing to the newly created Build Back Better Council which brings together 30 business leaders from a wide range of sectors of the British economy. The Council will work with the Government to unlock investment, boost job creation and support the delivery of Global Britain. We played a leading role in developing the sustainable aviation roadmap, launched in February 2020, and have been working to get it established in Government policy. We will continue working on reducing our own emissions further through using renewable electricity, road user charging and more EV charge capacity.

### Heathrow Expansion

– In December, the Supreme Court unanimously ruled the ANPS as lawful and legal Government Policy. Their verdict concluded the Government had considered the Paris Climate Change Agreement as part of the policy and reversed the decision taken by the Court of Appeal in February 2020. We have already committed to net zero and this ruling recognises the robust planning process that will require us to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. As passenger numbers recover, our immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, Government, airline customers and regulators on our next steps.

### Policy and regulatory matters

– In December we submitted our Revised Business Plan to the CAA, setting our proposed approach to the next price control period (H7) due to start in 2022. We recognise the uncertainties ahead and that major demands of our plan will be outside of our control including the recovery of passenger demand, the implementation of our proposed RAB adjustment and the length of the regulatory period. We have requested the CAA to enforce protections included in our current license to recover regulatory depreciation with immediate effect and limit losses in the same way upside is capped. Timely action by the CAA will secure private investment to maintain current levels of service and lower charges to consumers from H7.

## HEATHROW'S STRATEGIC FRAMEWORK

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

### WHO WE ARE

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

### WHAT WE WANT

Our Strategic Brief sets out our high-level aspirations for the future of Heathrow for all our strategic stakeholder groups.

### HOW WE ARE GOING TO ACHIEVE IT

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



WHO WE ARE	VISION	To give passengers the best airport service in the world
	PURPOSE	Making every journey better
	PRIORITIES	
	VALUES	
WHAT WE WANT	STRATEGIC BRIEF	Our high-level aspirations for the future of Heathrow for all our strategic stakeholder groups
HOW WE ARE GOING TO ACHIEVE IT	MASTERPLAN	The long-term plan for the layout of an expanded Heathrow
	MANAGEMENT AND REVISED 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 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



### KEEPING EVERYONE SAFE

We look after everyone. We never compromise on safety or security and do the job properly first time, every time. We're committed to safety as the foundation of an efficient operation and a secure airport. We know safety and security are essential for a great passenger experience.



### TREATING EVERYONE WITH RESPECT

We celebrate diversity and respect others. We're friendly, polite and considerate. We value everyone's contribution. We support our people so they can care for others.



### GIVING EXCELLENT SERVICE

We put a great passenger experience at the heart of what we do. We take time to understand what our passengers and our airlines really want. We are the best we can be and deliver what we promise.



### WORKING TOGETHER

We're one airport team. We develop excellent working relationships and bring out the best in each other. We work constructively with each other and our airlines, partners and local communities. We look for win-win outcomes that benefit Heathrow and our partners.



### IMPROVING EVERY DAY

We aim higher. We all play our part in achieving great financial results. We always look to keep things simple, reduce costs and improve efficiency. We regard every pound spent as if it were our own.



### DOING THE RIGHT THING

We're honest, open and fair, and act with integrity. We're responsible in the way we do business. We challenge the status quo, tell it like it is and speak out if we have a concern. We have the tough conversations, make the right decisions, stand by our word and do what we say we will.

## OUR STAKEHOLDER GROUPS

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

The full Strategic Brief can be found on our website at: <https://www.heathrow.com/company/about-heathrow/company-information/heathrows-strategic-brief>



## PERFORMANCE AGAINST STRATEGIC PRIORITIES

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



### PERFORMANCE INDICATORS

#### Lost-time Injuries<sup>1</sup>

2020	<b>0.14</b>
2019	<b>0.34</b>
2018	<b>0.33</b>

#### Colleague engagement<sup>1</sup>

2020	n/a <sup>2</sup>
2019	<b>74%</b>
2018	<b>73%</b>

<sup>1</sup> Number of lost time injuries for every 100,000 hours worked (Lost time injuries), miniPulse colleague survey results (Colleague engagement).

<sup>2</sup> Due to COVID-19, the miniPulse colleague survey was temporarily suspended for 2020.



### PERFORMANCE INDICATORS

#### Passenger satisfaction ('ASQ')<sup>3</sup>

2020	<b>4.24<sup>4</sup></b>
2019	<b>4.17</b>
2018	<b>4.15</b>

#### Security queuing<sup>3</sup>

2020	<b>95.2%</b>
2019	<b>96.3%</b>
2018	<b>96.8%</b>

#### Departure punctuality<sup>3</sup>

2020	<b>85.7%</b>
2019	<b>78.5%</b>
2018	<b>77.6%</b>

#### Baggage connection<sup>3</sup>

2020	<b>99.2%</b>
2019	<b>99.0%</b>
2018	<b>98.8%</b>

#### Connections satisfaction ('QSM')<sup>2</sup>

2020	n/a <sup>5</sup>
2019	<b>4.14</b>
2018	<b>4.16</b>

<sup>3</sup> Airport service quality ('ASQ'); percentage of flights departing within 15 minutes of schedule (Departure punctuality); percentage of passengers passing through central security within five-minute period (Security queuing); percentage of connecting bags traveling with the passenger (Baggage connection); quality of service monitor ('QSM').

<sup>4</sup> The ASQ survey was temporarily suspended in March in order to mitigate the spread of COVID-19 and resumed in August. Q4 2020 result was also our best Q4 score (4.24).

<sup>5</sup> Due to COVID-19, connections satisfaction was temporarily suspended for 2020.

## PERFORMANCE AGAINST STRATEGIC PRIORITIES (CONTINUED)



### PERFORMANCE INDICATORS<sup>1</sup>

#### Adjusted EBITDA £m

2020	<b>254m</b>
2019	1,922m
2018	1,840m

Passengers (millions)	2020	2019	Var. % <sup>2</sup>
UK	<b>1.5</b>	4.8	(69.8)
Europe	<b>9.8</b>	33.2	(70.3)
North America	<b>3.9</b>	18.8	(79.5)
Asia Pacific	<b>2.9</b>	11.4	(74.5)
Middle East	<b>2.5</b>	7.8	(68.2)
Africa	<b>1.1</b>	3.5	(67.3)
Latin America	<b>0.4</b>	1.4	(68.8)
<b>Total passengers</b>	<b>22.1</b>	<b>80.9</b>	<b>(72.7)</b>

Key traffic performance indicators	2020	2019	Var. %
Passenger ATM <sup>3</sup>	<b>177,285</b>	473,233	(62.5)
Load factors (%) <sup>3</sup>	<b>57.7</b>	80.0	(27.9)
Seats per ATM	<b>216.2</b>	213.7	1.2
Cargo tonnage ('000)	<b>1,141</b>	1,587	(28.1)



We believe sustainability in all our aspects is fundamental to our long term business success. Our Heathrow 2.0 plan explained our plans across four pillars of sustainability. Despite the impact of COVID-19 we continued to progress against that plan in 2020. We intensified our focus on taking the carbon out of flight in particular, committing to net zero and achieving carbon neutrality during the year. We will review Heathrow 2.0 over 2021. We provide details of our Heathrow 2.0 activity and performance in the next section.

<sup>1</sup> Further analysis can be found in the Financial Review on page 46.

<sup>2</sup> Calculated using unrounded passenger figures.

<sup>3</sup> Passenger air-traffic movements ('ATM') includes commercial flights including scheduled, chartered and cargo and excluding positioning and private flights; load factor is a percentage of seats filled by passengers.

# OUR COMMITMENT TO SUSTAINABLE GROWTH

COVID-19 has a huge impact on our business and on communities around the world, including those local to Heathrow.

The economic and employment needs in our local communities have increased and understanding of the strategic risk of climate change has continued to grow. While COVID-19 is a once in a generation challenge, climate change is a once in the planet's history challenge that must be urgently addressed. The pandemic has demonstrated that global problems require global solutions, reinforcing the principles informing our strategy and our unequivocal commitment to sustainability.

Heathrow 2.0 is our plan for sustainable trade and growth. It sets out how we will improve life for colleagues and communities, contribute to a thriving economy, and help to tackle global challenges including climate change. Our plan has four pillars through which we aim to deliver the big outcomes that reflect the material colleague, community and environmental opportunities for Heathrow: Great Place to Work, Great Place to Live, Thriving Sustainable Economy and a World Worth Travelling.

We remain committed to taking action across these pillars to protect and support people, economy and environment and enable future generations to benefit from global travel in a world without carbon. Heathrow 2.0 supports the ambitions set out in our Revised Business Plan and will help us meet the expectations of our stakeholders, while reducing environmental and social risks to our business. We will share the detail of a revised and updated Heathrow 2.0 sustainability strategy later in 2021.

During 2020 we made some early adaptations to our plan:

- We have increased our focus on climate change given its ever growing prominence as the greatest challenge facing our generation. Carbon has explicitly become part of an executive director's portfolio - the Chief Carbon and Strategy Officer now leads a Carbon and Strategy team, thus placing climate change at the centre of the company's strategic planning. In 2020 we became carbon neutral for our buildings and infrastructure and are working towards zero carbon.
- We focused our limited resources on supporting local communities, for example donating laptops to schools and food to food banks. We sponsored a Heathrow Local Recovery Plan under the leadership of Lord David Blunkett to bring together local boroughs, employers and other stakeholders to help people get back into work.
- We have enhanced our diversity and inclusion strategy, underlining our commitment to creating a welcoming and inclusive workplace. Our goal is for Heathrow to reflect the diversity of the local community at every level by 2025. This is a challenging target, and we have significant work to do, particularly on ethnic diversity, but it is the right thing to do for our business and for our local communities.

## 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. They feel more relevant than ever as we embark on 2021. To show how Heathrow 2.0 supports the 17 goals, we have summarised which goals apply to each of the four pillars within this report.

## SUSTAINABILITY CULTURE

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

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

<sup>1</sup> The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 80.

## A GREAT PLACE TO WORK

2020 was a hugely challenging year for our colleagues and our focus was on safety as our top priority. Although we needed to pause many of our programmes of work, we still believe the places we work should provide people with opportunities. We want everyone who works at Heathrow to feel they can be happy, motivated, and developed in ways which encourage them to flourish.

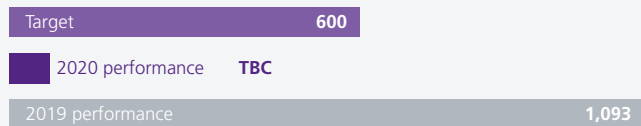


### EMPLOYMENT AND SKILLS

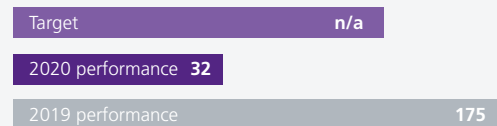
**Flagship goal:** 10,000 apprenticeships by 2030 to help people develop skilled and sustainable careers.

#### SUSTAINABILITY PERFORMANCE INDICATOR

Total Team Heathrow number of apprenticeships



Number of apprenticeships arranged through the Heathrow Academy<sup>1</sup>



<sup>1</sup> Measured by number of apprenticeship starts.

Both the COVID-19 pandemic and the delay to our expansion plans have impacted delivery of our apprenticeships strategy as employers at the airport retrenched and reduced their workforce. For 2020 we have not yet been able to collect data for apprenticeship starts across Team Heathrow due to disruption caused by the pandemic. We remain committed to apprenticeships as a way of supporting people to develop sustainable careers. In 2020 this was demonstrated through our ongoing delivery of the Shared Apprenticeship Scheme in Construction, with the 39 learners already on the scheme able to continue. Our flagship goal of 10,000 apprenticeships by 2030 was linked to our expansion plans and the additional opportunities that would create. In the light of changes to those plans and the impact of COVID-19, we are reviewing and revising our strategy and the time scale of our goals.

## DIVERSITY AND INCLUSION

Our business depends on the ability to provide an industry leading passenger service. To do this effectively we must recognise that a diverse range of thought, skills and experiences are required. Diversity and Inclusion is a fundamental part of our business strategy and to demonstrate our commitment we have set ourselves ambitious goals to ensure we are representative of our local community at every level by 2025.

2020 was a pivotal year for diversity and inclusion at Heathrow, one that saw the development of the Diversity and Inclusion team. The team have implemented our Diversity and Inclusion strategy and action plan, they act as our organisational conscience and focus on driving equality, providing challenge, implementing change and creating a sense of belonging and inclusion for all colleagues.

The COVID-19 pandemic and the Black Lives Matter protests of 2020, sparked by the killing in Minneapolis of George Floyd, highlighted that both institutional and societal racism and inequality is still prevalent around us. This cannot continue.

At Heathrow we have taken the following actions to leverage and develop further the skills and capabilities of our colleagues and organisation:

### Impact of the pandemic and our diversity and inclusion Goals

The COVID-19 pandemic created numerous challenges for our business, including making difficult workforce decisions about jobs, salaries, furloughing and returning to work. We aimed to protect our diverse colleagues, ensuring our diversity representation saw little impact, as illustrated in the table on the following page. We are proud to say that the challenges we were faced with did not distract us from our commitment to diversity and inclusion.

We will continue to monitor our progress against our diversity and inclusion goals quarterly through our newly created Diversity and Inclusion People Committee, chaired by The Chief People Officer, attended by The Chief Operations Officer, Chief Financial Officer, Chief of Staff, Learning and Inclusion Director, Diversity and Inclusion Manager and key representatives from across the organisation.



## Black Lives Matter Movement

The Black Lives Matter Movement can be traced back to 2013 but the killing of George Floyd took the movement to areas it had not reached before and will result in lasting change. We responded directly to this movement and this was passionately led by our CEO. Heathrow held dedicated company-wide discussions giving colleagues a voice and platform to share their experiences, to explore the movement and show support for anti-racism. Most importantly, our CEO gave a very important message; At Heathrow, everybody is welcome.

This was positively received by colleagues which led to an increased number of Listening Circles taking place across the organisation where colleagues of all ethnicities took part in conversations talking about race to share experiences and further enhance their learning. This positive action was further demonstrated through the activities that took place during Black History Month; recognising and celebrating difference. Colleagues of all ethnicities joined virtual book club sessions, engaged in inclusivi-tea's which provided a safe space to discuss, ask, share and learn about race.

Our race and ethnicity network worked closely with Show Racism the Red Card, the UK's largest anti-racism educational charity to provide a number of workshops to educate colleagues about the causes and consequences of racism. The network took part in celebrating 'Standing together against racism on wear red day' and were awarded Bronze for their engagement activity both internally and externally.

Goals	Target		Performance	
			2020	2019
Reflect the diversity of the local community at every level for Female colleagues	49% Female representation at each level	Senior managers <sup>2</sup>	37.2%	35.0%
		All colleagues <sup>3</sup>	40.8%	43.0%
Reflect the diversity of the local community at every level for Black, Asian and Minority Ethnic Colleagues	39.9% Black, Asian, Minority Ethnic representation at each level	Senior managers	17.2%	17.0%
		All colleagues	45.9%	43.0%
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	98.0%	N/A <sup>4</sup>
		Disability	19.1%	N/A <sup>4</sup>
		Ethnicity	92.0%	N/A <sup>4</sup>
		Sexual orientation	19.1%	N/A <sup>4</sup>

## GENDER AND ETHNICITY PAY GAP

### Gender

We see the gender pay reporting requirements as a step in the right direction, helping us to retain, develop and attract the best talent whilst, creating an inclusive workplace where everyone can achieve their potential.

In 2020, the median Gender Pay Gap has increased to 4.5% (vs, 3.0% in 2019). The mean Gender Pay Gap has improved by 1.0% to 8.8% (from 9.8% in 2019).

The median Bonus gap has remained flat at 0.3%, with both the median male and female colleagues paid the Airport Profit bonus. The mean Bonus gap has improved by 1.0% to 27.0% (from 28.0% in 2019). We are proud of the progress we have made, but there is still more to do and the 2020 Gender Pay Gap Report sets our ongoing plans to improve our Gender Pay Gap.

### Ethnicity

We are committed to increasing the representation of Black, Asian and Minority Ethnic colleagues across all levels of our organisation. In 2020 we voluntarily calculated our Ethnicity Pay Gap data which will be used to inform our Race Action plan and launch our first Ethnicity Pay Gap report in 2021.

We know that reducing our pay gap and changing the representation of our workforce will take time and we continue to implement and develop key levers to support us achieving our goals. For example, in Q4 of 2020, we signed up to 'Career Elevate', a government funded resource and part of their national retraining scheme.

Career Elevate, managed by MyKindaFuture is an online mentoring and learning experience aimed at supporting diverse colleagues to develop the mindset and skills needed to adapt and thrive in a new role, career and working environment.

<sup>2</sup> Executive to band C.

<sup>3</sup> All directly employed colleagues of the Heathrow Airport Holdings Limited Group as defined on page 80.

<sup>4</sup> Data was not collected in 2019 – new performance indicator from 2020.

## DISABILITY CONFIDENT LEADER STATUS

Heathrow were awarded Disability Confident Leader Status in 2020 recognising our efforts to support the recruitment, retention and development of disabled colleagues. We have demonstrated that we have:

- Challenged attitudes towards disability.
- Increased the understanding of disability.
- Removed barriers to disabled colleagues and those with long-term health conditions.
- Ensured that disabled colleagues can fulfil their potential and realise their aspirations.
- Provided adjustments during recruitment and once employed as a colleague.
- Implemented several changes to our recruitment processes including guaranteed interview if you meet the minimum requirements for the role.

Heathrow are the first airport to be awarded Disability Confident Leader Status and subsequently received a Ministerial Visit by MP Therese Coffey. We were also delighted to win the RIDI Awards 2020 for our Disability Confident submission.

## DISCLOSURE RATE

We aim to create a welcoming, inclusive workplace where everyone feels able to bring their whole self to work and perform at their best, we need to continue to ensure we create a safe environment where colleagues feel confident in doing this. Our aim is to focus on this in 2021 and see an increase in disclosure rates and creating more diverse role models.

## DIVERSITY NETWORKS

Diversity networks, by their very nature, are about change. They exist largely because there is a desire to see a difference within organisations and identify through the collective voice what the perceived issues and barriers are.

Our diversity networks continue to help us promote an inclusive culture through their awareness raising campaigns. They include: Altitude, our gender equality network; HAND, Heathrow Airport's Network for Disability; en-haNCE, our culture and ethnicity network; and PROUD, our LGBT+ network. Each network has an executive sponsor who acts as a mentor and champion, and a director sponsor who supports the network to meet its objectives. In 2020 all our networks have adapted the way they operate and found new ways to engage with colleagues virtually.

In 2021, we will support the development of our networks by enhancing their structure, driving strategic alignment of network activity with the business so they are supporting the delivery of the Diversity and Inclusion strategy, action plan and goals. We will encourage collaboration between networks and promote intersectionality. Our network steering groups will be used as an opportunity to develop our diverse colleagues.

## DIVERSITY AWARDS

In 2020 we were delighted to see our work on Diversity and Inclusion recognised by several award schemes:

- Winner of RIDI Award for Disability Confident.
- Winner of the Genius Within CIC Award for Umbrella Project.
- Winner of the British LGBT Award for Network Group of the year.



**PAULA STANNETT**  
Chief People Officer

## A GREAT PLACE TO LIVE

Whilst COVID-19 has without doubt been the most challenging time in Heathrow's history, we also know that our community has needed us more than ever before. We want to be a responsible neighbour that benefits our local community.



### RESPIRE FOR RESIDENTS

**Flagship goal:** halve the number of flights on non-disrupted days which operate late after 23:30.

#### SUSTAINABILITY PERFORMANCE INDICATOR

Late Running Aircraft<sup>1</sup>

Target **219**

2020 performance **68**

2019 performance **257**

<sup>1</sup> Unscheduled departing aircraft operating after 23:30 on non-disrupted days, with the goal of seeking to at least halve the number by 2022 compared to 2016.

The figure for 2020 is significantly lower than 2019 because of the operational impacts of the pandemic which reduced annual movements by 63%. As the airport recovers we remain committed to reducing the number of late runners through collaborative initiatives such as the Quiet Night Charter. The lower number of flights operating in and out of Heathrow led to us taking the decision to consolidate operations by closing one of our two runways at different periods during the year. During the summer we also carried out extensive repair works to the southern runway which meant it was closed for a number of months. Although flight numbers were much lower during the year (meaning less noise), we knew the changes to how we operated our runways, would impact some local residents through loss of respite, so provided monthly bulletins.

### QUALITY AIR, LOCALLY

In May 2019, we announced the world's first airport Ultra Low Emission Zone ('ULEZ'). In December 2020, due to the impact of COVID-19, these plans were adjusted with a proposal to explore the introduction of a Forecourt Access Charge for vehicles in late 2021. Our current estimates indicate that such a charge will reduce congestion, improve air quality and cut carbon emissions in travel to the airport. It is a way to pragmatically support a shift away from cars in a post-COVID recovery. An airside ULEZ also remains part of our future plans.

### COVID-19 COMMUNITY RESPONSE

We remain committed to being a responsible neighbour throughout the crisis. We have shared resources with those who needed them most. This included donating laptops to local primary schools via funds donated by members of the Executive Committee and the recycling of old equipment, supporting Team Heathrow companies to distribute surplus food to foodbanks, making donations of facemasks to NHS hospitals, and repurposing our Heathrow Community Rangers to provide logistics support to community organisations. In 2021 space within our head office will be utilised as an NHS COVID-19 vaccination centre, under the Government's mass vaccination programme.

## COMMUNITY INVESTMENT

In 2020, Heathrow has continued to provide support for its neighbouring villages. This has included the Heathrow Community Ranger provision - three full-time rangers and a part-time supervisor - who maintain aspects of the local community, including landscaping and litter-picking. This initiative is designed to add value to the service provided by the Local Authority. We have maintained our partnership with its five most local primary schools, offering them support wherever we were able to help them to respond to the impact of COVID-19. We also transitioned our education programmes, such as weekly reading partners with colleague volunteers, to a virtual delivery towards the end of the year. It is really important to us that the support we provide to schools is targeted according to need and we work with Business in the Community to help deliver this through our primary school activities. Our partner schools' priorities changed in 2020 as they responded to the pandemic and we're pleased to continue to support them. Other aspects of our Community Investment programme in 2020 have been scaled back to reflect the impacts of COVID-19 on the business, including the Neighbouring Villages Fund.

We continued to support the Heathrow Community Trust, an independent grant-making charity which funds projects that improve quality of life for communities near the airport. Further detail can be found on page 45.

## COMMUNITY ENGAGEMENT

Heathrow's engagement in 2020 had to quickly respond to the implications of COVID-19. This meant that our regular forums (Local Focus Forum and Heathrow Community Noise Forum) were replaced with paper updates in the spring and summer, and then transitioned to virtual meetings in the autumn. As part of business protection and cost saving initiatives, the creation and distribution of the borough newspaper, 'Heathrow News' was stopped. In the Summer of 2020, the first quarterly e-bulletin was circulated to local community members on our mailing list. Throughout 2020, we have continued to maintain the community phonenumber, which receives queries and complaints from local residents on an array of topics such as noise, Heathrow Expansion, runway operations and community support. In 2020, they took 1,682 calls from local residents or other stakeholders and received 1,042 queries by email. During the year, 39,083 noise complaints were received from 945 complainants. Of these complaints, 76% were from the same 10 complainants. There was a 70% drop in the number of people making noise complaints compared to 2019, and a 50% drop in the total number of complaints received.

Heathrow Community Engagement Board ('HCEB') continued to operate and held its first quarterly Independent Forum in July. HCEB also published a report, with Oxford Economics, on the impacts of reduced activity at Heathrow on the local area.

## A THRIVING SUSTAINABLE ECONOMY



As the UK's only hub airport, we have a critical role to play in the economy, both nationally and locally. We want to use our influence to drive change and collaborate with the 400 businesses that operate from or supply goods and services to Heathrow.

### HEATHROW LOCAL RECOVERY PLAN

In November, following four months of work and collaboration with local stakeholders, we published the 'Heathrow Local Recovery Plan' to help drive local economic growth post-pandemic. The local recovery plan came at a critical time, as research from Oxford Economics revealed that there could be 16,000 fewer jobs in the communities around Heathrow in 2021 versus 2019 as a result of the devastating economic impacts of COVID-19.

The plan sets out a clear agenda for the recovery of our local economy and brings together the recommendations from Heathrow and its neighbouring local authorities, local enterprise partnerships and key partners, committed to enabling airport sector recovery and supporting local communities affected.

The plan will be implemented by the Heathrow Local Recovery Forum ('HLRF'), chaired by Lord Blunkett that was established in September 2020. The plan can be viewed at:

<https://mediacentre.heathrow.com/pressrelease/details/81/Corporate-operational-24/12624>

### LONDON LIVING WAGE

**Flagship goal:** All our direct supply chain colleagues working at Heathrow will be transitioned to be paid the London Living Wage by the end of 2020 and we will encourage commercial partners and our supply chain to work towards the London Living Wage, while continuing to give affordable service to our customers.

#### SUSTAINABILITY PERFORMANCE INDICATOR

London Living Wage Contracts<sup>1</sup>

Target

44

2020 performance 3

2019 performance

64

<sup>1</sup> The number of amended and renegotiated contracts to be London Living-Wage compliant, with the goal of all direct supply chain colleagues working at Heathrow to be transitioned by the end of 2020.

Despite the impact of the pandemic, we have maintained the LLW for all our directly employed colleagues. Due to the impact of COVID-19 on our business, in March 2020 we made the very difficult decision to pause delivery of our Living Wage Roadmap for suppliers. We remain committed to transitioning all direct supply chain colleagues working at Heathrow to be paid the London Living Wage and we are currently working through the details of our revised Living Wage Roadmap so that we can restart this programme again as soon as we are able to.

## A WORLD WORTH TRAVELLING

### CLIMATE CHANGE



Aviation is a force for good in the world, helping power economic growth and bringing people and cultures together. Our challenge is to protect the benefits of aviation in a world without carbon and to do that we need to get to net-zero aviation emissions by 2050. COVID-19 has shown us the effects of a genuine global crisis. It is clear we must act now to avoid that kind of crisis with our climate and the devastating impacts that entails.

We continue to play a leadership role which matters not just because we must help the UK achieve its net-zero target, but because we can use our status as a major global hub airport and our industry links to accelerate change in our sector and around the world. Ultimately delivering net zero underpins the future success of our business and sector, enables the benefits of airport expansion, and it reduces the significant risks associated with climate change.

It is positive that in the midst of the worst crisis in the aviation sector's history, momentum on addressing climate change has continued to build and progress has been made. The focus now is to place climate change at the centre of the industry's recovery and accelerate progress towards achieving net zero during this decade.

#### HEATHROW 'TARGET NET ZERO'

We published 'Target Net-Zero' in early 2020, our plan for net-zero, which supports the UK industry net-zero target and roadmap. Our ambition is for 2019 to be the year of peak carbon emissions from Heathrow, driven by the accelerated retirement of older aircraft because of the pandemic, and with urgent action by the Government to scale up Sustainable Aviation Fuel (SAF).

Heathrow cannot get to net zero alone. Carbon emissions at Heathrow are generated by airlines, other organisations that operate at Heathrow, passengers and colleagues. That is why our Target Net-Zero plan is built around the following goals:

- Working with our industry partners, Government and passengers to decarbonise flight.
- Working with other organisations that operate at Heathrow, and with passengers to eliminate carbon on the ground from surface access and vehicles.
- Finishing the job of getting our own house in order as the airport operator. Our airport infrastructure became carbon neutral in January 2020 through carbon offsetting, the next goal is achieving zero-carbon airport infrastructure.

#### DECARBONISING FLIGHT

Over 95% of Heathrow's carbon footprint is from flights. Our role is to support the industry roadmap, using our scale and influence to drive change and take a lead in campaigning for net-zero flight.

The journey to net-zero aviation has two parts. First, removing the carbon from flying. Second, putting any carbon we do emit back in the ground through natural climate solutions or through engineered carbon removal.

To remove the carbon from flying there are in turn two choices: "change the plane" or "change the fuel". Changing the plane means developing a new zero-emissions aircraft. Electric and hydrogen technologies are both options for shorter journeys. Airbus has recently announced plans for a commercial hydrogen aircraft with a capacity of up to 100 seats and a range of up to 2,000kms to be flying by 2035. That would be a significant step forward. However, flights of that distance still only represent around 30% of global aviation carbon. This shift will also take decades as the aircraft fleet is gradually changed over – too slow to meet climate change goals.

The 70% of aviation carbon that comes from longer journeys will require a different solution: changing the fuel. That means feeding new, lower carbon SAF into existing pipelines and aircraft. These fuels are proven, have the potential to cut carbon by at least 70% and meet strict sustainability standards.

Whilst we deliver the steps necessary to take the carbon out of flying, there are opportunities to support initiatives outside of our sector and put the carbon back in the ground today. Carbon removal will be a key part of getting aviation to net zero and the sector can play a role in catalysing and scaling up the market for nature based and engineered carbon removal. Nature-based carbon removal opportunities are already available and take time to deliver carbon benefits so investment now is important. We are a founding member of the Coalition for Negative Emissions which is working to support an overall UK policy framework for nature-based and engineered carbon removals. We have taken a leadership role within UK aviation to assess the scale of opportunity and to understand how removal projects and benefits can be realised. We have so far funded three Woodland Carbon Code projects in Scotland and Wales.

### Building an industry coalition to deliver net zero

In 2020, we have continued to invest in our advocacy role, building the case for action through our involvement in business groups, through the media, and participating in key speaking events. Key highlights of Heathrow led or supported events include:

- Our CEO speaking to the Airports Council International Europe Conference and the ICAO Global Stock-taking Seminar on Carbon; a global event on a long-term climate goal for aviation.
- Participation in the World Economic Forum CEO Action Group.
- Clean Skies for Tomorrow publishing its European Policy Proposal.
- We joined a round table of global industry leaders as part of His Royal Highness' 'Sustainable Markets Initiative', and we lead its aviation taskforce.
- Continuing membership and involvement in the Council for Sustainable Business to develop its position on the decarbonisation of aviation, and the Corporate Leaders Group on Climate Change.
- Calling for and participating in the UK Government Jet Zero Council bringing all parts of the industry together in the drive for zero-carbon flight.
- Mainstream media interviews and the publication of opinion pieces.
- In the finance sector we are an active member of Accounting for Sustainability and support their programme of work. Climate change and sustainability is a feature of our participation in global roadshows and investor conferences.
- Heathrow proudly joined a group of global companies in January 2020, who are supporting and welcoming the launch of the 'Terra Carta' – part of HRH The Prince of Wales' Sustainable Markets Initiative.

Advocacy will remain a priority for us as the global industry continues to develop its long-term response to addressing climate change, before gathering at the ICAO General Assembly in 2022 to agree a global net-zero emissions target.

### Leading the drive towards Sustainable Aviation Fuels

Core to the goal of net-zero flight are the policies needed to urgently scale up SAF in particular.

During 2020 we've been working through industry groups to understand how the scale up of SAF can be achieved and build momentum to action.

Globally the key initiative has been the Clean Skies for Tomorrow coalition, a group of leading airports, airlines, OEMs, fuel companies, aviation users and governments, working through the World Economic Forum and the Energy Transition Commission's "Mission Possible Partnership" on hard to abate sectors. The group backs the ambition of net-zero aviation and is working on the opportunity for scale up, the availability of feedstock, technology pathways and costs, and policy proposals including both a supply-side mandate and demand-side incentives. By 2030, 10% of all aviation fuel used in Europe could be sustainable, based on analysis by the Clean Skies for Tomorrow Coalition.

Within the UK, Heathrow has set out proposals for aviation decarbonisation to Government both directly and through our membership of Sustainable Aviation. A series of meetings with government ministers, senior officials and advisers have focused on the interventions needed by the Government to support the scale up of SAF.

In 2020, the Government launched the Jet Zero Council, a group of 25 industry, Government and environmental leaders tasked with agreeing and delivering the plan for net-zero aviation. We will stay actively involved in that process supporting the development of ambitious targets for SAF use and working with airlines and others to make any target a commercially viable reality.

### Taking direct action to cut emissions

Beyond advocacy we are looking at what we can do directly to support the decarbonisation of flight.

Our landing charges already incentivise planes that are cleaner for local air quality and quieter. We are now consulting on how we could use our landing charges to incentivise SAF.

We are also considering where capital investment by Heathrow can cut carbon from aircraft both in the air and on the ground and support our airline customers to deliver their carbon goals.

We are making it easier for customers to reduce the carbon impact of their flights. In early 2020 we launched a quick and easy platform for customers to purchase quality carbon offsets to cover flights. As travel recovers post COVID-19 we plan to restart promotion of the platform.

## A WORLD WORTH TRAVELLING (CONTINUED)

### ELIMINATE CARBON ON THE GROUND – SURFACE ACCESS AND VEHICLES

Three percent of Heathrow's carbon footprint comes from surface access to and from Heathrow by colleagues, passengers and freight vehicles, or from vehicles operating within the airport. Our goal is to deliver the infrastructure, services and incentives that enable passengers and colleagues to make more sustainable travel choices. More sustainable travel choices also contribute to reducing congestion, improving local air quality, improving health and wellbeing and supporting our ambition of Heathrow as a great place to live.

During the next decade, we expect to see a bigger shift by passengers, colleagues and airport companies to electric vehicles in response to government policy. We plan to support the growth in electric vehicles by investing in our electric vehicle charging network, so we keep pace with demand, maintain a good service and increase usage. We will also see how we can accelerate a faster uptake by colleagues and Team Heathrow partners, supported by the introduction of an airside 'Ultra-Low Emissions Zone' by 2025.

The introduction of Crossrail services to Heathrow will increase the number of rail connections and offers passengers a new convenient service. We also plan to invest in other active travel and public transport improvements in our next regulated settlement period to provide passengers and colleagues with more sustainable options for getting to and from the airport be that walking, cycling, bus and coach, or rail.

### GETTING OUR OWN HOUSE IN ORDER – ZERO-CARBON AIRPORT INFRASTRUCTURE

Less than 1% of Heathrow emissions are directly controlled by the airport. These are the emissions from the energy used to run our buildings and infrastructure. Heathrow became carbon neutral in January 2020. Our plan is for zero-carbon infrastructure by the mid-2030s. Total emissions from our electricity and gas use have fallen by around 85% since 2015. This is a result of continued investment in energy efficiency measures, the generation of renewable energy on-site from biomass and solar which delivers 10% of our energy needs and shifting to a renewable electricity tariff.

Moving forward we plan to continue with the same approach. Consuming less energy will always be the first step as it helps us save costs. We will identify new opportunities to operate our assets more efficiently. We will also continue the job of decarbonising the airport's gas heating network and transitioning to 100% renewable energy sources.

### BUILDING TARGET NET ZERO INTO HEATHROW'S REGULATED BUSINESS PLAN

In December 2020, we submitted the latest draft of our business plan to the CAA for the next 5-year regulated settlement period which begins in 2022. As part of our priority for sustainable growth, we have made a strong case for action for addressing climate change and included actions from Target Net Zero that we need to deliver in this period. As our business recovers, we propose to invest in initiatives that deliver the biggest cuts in emissions from aircraft and on the ground, reducing our footprint as fast as we can through the first half of this decade to the end of 2026.

Our Task Force for Climate-Related Financial Disclosure provides more information on how our approach to climate change addresses our material climate risks.



## TARGET NET ZERO

### Finishing the job of getting our own house in order

1. We will keep investing until all our airport infrastructure and vehicles are zero carbon.

### Working with our Team Heathrow partners and with passengers to eliminate carbon on the ground

2. We will support business partners to ensure vehicles at Heathrow meet ultra-low emissions standards by 2025 as a step toward a full zero-carbon fleet in the future.
3. We will make it easier for the 76,000 people who work at Heathrow, our passengers and all those who travel in our local area to reduce their emissions from travel on the ground.
4. We will become a world-leader in low-carbon construction, setting a clear baseline and ambitious reduction targets to reduce embodied carbon from expansion of the airport. We will offset residual emissions.

### Working with our industry partners, Government and passengers to decarbonise flight

5. We will work to build a global aviation industry 'high ambition coalition' with the aim of agreeing a global net-zero emissions target at the ICAO general assembly in 2022.
6. We will help accelerate the production and use of Sustainable Alternative Fuels ('SAF').
7. We will support the development of technologies which can get aviation to fully zero-carbon flight.

### Removing carbon from the atmosphere

8. We will help passengers to offset their flights and increase our own investment in natural and technological solutions to remove carbon from the air until aviation reaches net-zero carbon.
9. We will keep evolving this plan and testing ourselves to go further wherever possible, working with airlines, airports, manufacturers, government and academics to consider what further steps we can take together.
10. We believe there is scope for the Government to help the aviation industry move faster by supporting the development of new zero-carbon technologies, developing a clear net-zero standard, investing in new public rail schemes and incentivising the development and take-up of more sustainable aviation fuel – for example, through the Air Passenger Duty and promoting offsetting.

To find out more about our Target Net Zero plan visit <http://www.heathrow.com/net-zero>.

### Definitions

#### Carbon-Neutral

To offset residual carbon emissions, credits can be purchased from carbon removal projects (such as afforestation) or from paying for activity in other sectors that reduces carbon emissions elsewhere, for example paying for renewable energy projects to replace the burning of fossil fuels. We became carbon-neutral for airport infrastructure in January 2020.

#### Net-Zero

This means that the maximum feasible emission-reductions of carbon have been made, and any residual emissions are counterbalanced by an equal volume of carbon removals achieved by purchasing offset credits. Work continues to build our detailed Target Net-Zero strategy out of our current 8 point plan including the fastest timeline for making our airport infrastructure net-zero.

#### Zero-carbon airport infrastructure

Generating no carbon from the energy used to run Heathrow, including all our buildings and fixed assets. We are working towards becoming a zero-carbon airport by the mid-2030s.

## A WORLD WORTH TRAVELLING (CONTINUED)

### 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 Target Net-Zero plan.

The data in this report is for 2019. We produce a detailed carbon footprint each year in our annual sustainability progress report which is published later than our annual report and accounts. Calculating our footprint relies, in part, on external data sets

which for 2020 are not yet available. Our carbon footprint for 2020 will be published later in 2021. Our goal is to automate carbon data gathering so that in the future we can publish our carbon footprint at the same time as the annual report and accounts. More detailed information on our footprint is available in our 2019 Sustainability Progress Report at [www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/reports-and-further-reading](http://www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/reports-and-further-reading)

Our methodology for carbon reporting follows the Greenhouse Gas Protocol and Airport Carbon Accreditation ('ACA') guidelines. It includes emissions from our infrastructure, travel to and from the airport and aircraft in the landing and take-off ('LTO') cycle. This year we have expanded the scope of our footprint to include scope 3 'cruise' emissions. These are departing aircraft emissions above 3000ft between departure and arrival airports.

Emission source	Greenhouse gas emissions		
	2017	2018	2019
<b>SCOPE 1 (tonnes CO<sub>2</sub>e)</b>	<b>29,216</b>	<b>28,330</b>	<b>26,515</b>
Fuel consumption utilities			
– Market based	24,779	23,604	21,942
– Location based	24,779	25,711	24,335 (134,288.9 MWh)
Operational vehicles	1,749	1,817	1,668 (157.7 MWh)
LPG for fire training	9	34	35 (4.9 MWh)
Refrigerants	2,678	2,875	2,871
<b>SCOPE 2 (tonnes CO<sub>2</sub>e)</b>	<b>15,680</b>	<b>0</b>	<b>0</b>
Grid electricity consumption			
– Market based	15,680	0	0
– Location based	97,408	79,921	71,163 (283,229 MWh)
<b>SCOPE 1 and 2 carbon intensity (kg CO<sub>2</sub>e/passenger)</b>	<b>0.58</b>	<b>0.35</b>	<b>0.33</b>
<b>SCOPE 3 (tonnes CO<sub>2</sub>e)</b>	<b>20,998,580</b>	<b>21,045,899</b>	<b>20,778,193</b>
<b>Total (tonnes CO<sub>2</sub>e)</b>	<b>21,043,476</b>	<b>21,074,229</b>	<b>20,804,708</b>

#### Supporting notes:

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

#### Scope 1 emissions

- Improvements have been made to our methodology for accounting refrigerant emissions and so emissions for previous years have been recalculated and uplifted.

#### Scope 2 emissions

- Market-based grid electricity consumption: market-based emissions for grid electricity have been used to calculate total emissions.
- Guarantee of Origin ('REGO') contract: the REGO certificate covers HAL ('Heathrow Airport Limited'), our "Pod" test track and Business Support Centre (in Glasgow), all of which fall under Scope 2 electricity.
- All scope 1 and 2 emissions are UK based.

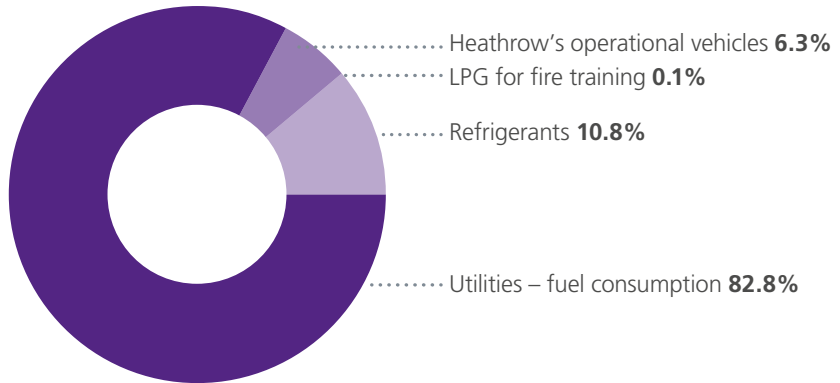
#### Scope 3 emissions

- Third party fuel consumption – utilities: market-based emissions for grid electricity have been used to calculate total emissions; includes the Heathrow Express (HEX) depot.
- This footprint does not currently include supply-chain emissions from freight and logistics activity. However, we are currently mapping out these emissions as part of our Carbon Trust supply-chain accreditation.

**SCOPE 1 AND 2 EMISSIONS**

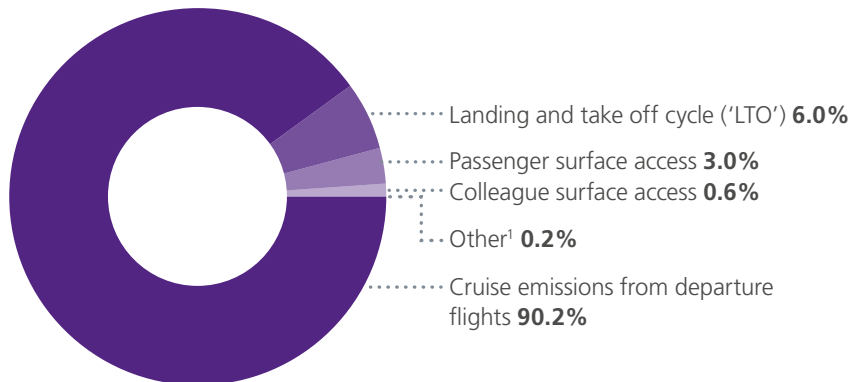
Scope 1 are all 'direct' CO<sub>2</sub>e emissions from activities at Heathrow under our direct control, such as Heathrow's own vehicles, fuel required to heat our terminals and non-carbon emissions including refrigerant gases.

Scope 2 are all 'indirect' CO<sub>2</sub>e emissions from the electricity purchased for the organisation. Scope 2 market-based emissions for 2019 were zero. This is because our electricity was sourced using a Renewable Energy Guarantee of Origin ('REGO') backed contract. The REGO certificate covers Heathrow Airport Limited, our parking-pod test track and Business Support Centre (in Glasgow), all of which fall under Scope 2 electricity.



**SCOPE 3 EMISSIONS**

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



<sup>1</sup> Other comprises of business travel, operational vehicles & equipment, waste, water, third party grid electricity consumption - market based and fuel consumptions - utilities.

**ENERGY EFFICIENCY**

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

A heat link to supply renewable heat from our biomass boiler to Terminal 5 was completed and successfully commissioned in 2020. The link now enables the biomass boiler to supply renewable heat to both Terminals 2 and 5, and to maximise the amount of renewable electricity we generate on site.

## EXPANSION



In June 2018 Parliament approved the Airports National Policy Statement ('ANPS') which set out the policy framework for expansion at Heathrow Airport and was to be the primary basis for decision-making on any development consent application for a new north-west runway.

We were making considerable progress towards our Development Consent Order application to deliver a sustainable, affordable and financeable expanded Heathrow, including holding multiple consultations to seek feedback on its proposals. However, in February 2020, the Court of Appeal concluded that the Government was required, but had failed, to take into account the Paris Climate Change Agreement when preparing the ANPS. The Court declared that the ANPS had no legal effect unless and until the Government carried out a review of the policy. The Government declined to appeal to the Supreme Court directly, but we were granted permission by the Supreme Court to appeal the Court of Appeal ruling.

In October, we submitted an appeal to the Supreme Court and in December, the Supreme Court unanimously ruled the ANPS as lawful and legal Government policy. The verdict confirmed the Government had taken into account the Paris Climate Change Agreement as part of the policy, and that this would be considered as part of the robust planning processes in the UK. We have already committed to net zero and this ruling recognises the robust planning process that will require us to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Change Agreement, before construction can begin. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology. This is the right outcome for the country, which will allow Global Britain to become a reality and Heathrow remains committed to a long-term sustainable expansion and considers it a probable outcome based on experience to date.

As passenger numbers recover, the immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, government, airline customers and regulators on our next steps. These 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.

With the support of the Government, the CAA and the airlines, Heathrow will be able to deliver an Expansion project that would benefit the airport's local communities as well as the whole of the UK, delivering tens of thousands of jobs and resulting in an unrivalled network of international connections that would help Global Britain succeed.

## OUR CHARITY PARTNERSHIPS

As the UK's leading airport, we have a responsibility to not only reduce our negative impacts, but to deliver a positive future as well. In 2020, we have worked with our three corporate charity partners.

The work, which is overseen by our Charities and Communities Committee, saw Heathrow donate cash, collect passenger donations, and share our time. This helps us to deliver on our company values, and our community and Heathrow 2.0 sustainability commitments. Our charity partners are:

- Heathrow Community Trust – our local partner.
- Duke of Edinburgh Awards Scheme – our national partner.
- CARE International UK – our international partner.

In 2020 we donated £0.6m (2019: £0.9 million) and we leveraged<sup>1</sup> funds totalling £0.1m from passenger donations and airline noise fines (2019: £0.6m, which also included colleague fundraising and donations from other airport companies). This has been an incredibly challenging year for Heathrow, but we have continued to support our charity partners. We made the decision to pause colleague fundraising in the year due to the impacts of COVID-19 government restrictions and furlough on colleagues, and due to the fall in passenger numbers, this year's passenger coin collection totals are also significantly reduced.

In 2020, Heathrow made the difficult but necessary decision to scale back our charity partnerships for the following year. This means that in 2021, Heathrow's national and international partnerships with DofE and LendWithCare, will be on hold. This provides the opportunity for the business to consolidate its efforts, to make the greatest difference to the Heathrow Community Trust possible, and therefore our local community. We will review our partnership plans for 2022 at the end of the year.



### HEATHROW COMMUNITY TRUST

Heathrow Community Trust is an independently run grant-making charity. The Trust's grant programme funds projects that improve quality of life for communities near the airport. This year, our donation to the Trust in the second half of the year was reduced to reflect the challenging environment that the business is operating within. We have continued to prioritise supporting its local community. In 2020 we gave £425,000 (2019: £725,000) and a further £10,900 (2019: £107,000) was leveraged<sup>1</sup> from airline noise fines. This, along with funds raised in previous years, allowed the Trust to distribute grants worth £438,000 in 2020, including through three rounds of emergency COVID-19 resilience funding, as well as several rounds of their usual grant programmes at the beginning of the year. In 2020 projects funded by the Heathrow Community Trust directly benefitted 10,902 people, of which 4,797 were young people, and maintained or improved 236,827m<sup>2</sup> of community green space, including planting 11,181 trees.



### THE DUKE OF EDINBURGH'S AWARD

The Duke of Edinburgh's Award ('DofE') programme transforms young people's confidence, skills and wellbeing. In 2020, we gave £200,000 (2019: £200,000) to support DofE transform more young people's lives. £160,000 supported DofE's planned, budgeted work including operational costs, whilst £40,000 was ringfenced to support young people in our neighbouring boroughs – Hillingdon, Hounslow and Slough, as part of the Boosting Participation project. As a result of the funding spent locally, 488 young people were able to start their DofE award. In April, DofE launched 'DofE with a Difference' to allow young people to continue undertaking their award throughout lockdown. Two Heathrow Colleagues, 'DofE Champions' worked on a shared project with DofE for Black History Month.



### CARE INTERNATIONAL

CARE International is a charity that works around the globe in 100 countries to save lives, defeat poverty and achieve social justice. Our partnership enables our passengers and colleagues to support entrepreneurs living in poverty around the world, through the 'Lendwithcare' initiative. 'Lendwithcare' is an online lending platform that allows you to personally give entrepreneurs much-needed access to credit and training. This money is then used to help change the lives of those living in poverty. CARE receives donations from our passengers via coin collection boxes in our terminals, which aim to encourage them to donate left over currency. In 2020 passenger donations made to CARE totalled £89,000 (2019: £286,000). A proportion of these funds were diverted to Lendwithcare's Small Business Solidarity Fund in response to COVID-19.

<sup>1</sup> Leverage is a measure of additional resources contributed to charities from sources other than the company.

# FINANCIAL REVIEW



COVID-19 related lockdowns and associated Government travel restrictions in 2020 have significantly impacted our financial performance, nevertheless decisive management actions have delivered significant cost savings and protected liquidity. Revenue declined 59% and Adjusted EBITDA declined 86% to £254 million, after the delivery of c. £400m gross cost savings. We continue to actively manage our liquidity position having successfully raised £1.7 billion from global capital markets and protect creditors by injecting £600 million capital into the regulated group to weather the crisis.

**JAVIER ECHAVE**  
Chief Financial Officer



Year ended 31 December	2020 £m	2019 £m
Revenue	<b>1,208</b>	2,976
Adjusted operating costs <sup>1</sup>	<b>(954)</b>	(1,148)
<b>Adjusted EBITDA<sup>2</sup></b>	<b>254</b>	1,828
Depreciation and amortisation	<b>(774)</b>	(736)
<b>Adjusted operating (loss)/profit<sup>3</sup></b>	<b>(520)</b>	1,092
Net finance costs before certain remeasurements and exceptional items	<b>(268)</b>	(411)
<b>Adjusted (loss)/profit before tax</b>	<b>(788)</b>	681
Tax credit/(charge) on (loss)/profit before certain remeasurements and exceptional items	<b>111</b>	(164)
<b>Adjusted (loss)/profit after tax<sup>4</sup></b>	<b>(677)</b>	517
<b>Including certain remeasurements and exceptional items</b>		
Fair value (loss)/gain on investment properties	<b>(412)</b>	43
Fair value (loss)/gain on financial instruments	<b>(147)</b>	95
Exceptional items	<b>(182)</b>	–
Tax credit/(charge) on certain remeasurements and exceptional items	<b>65</b>	(24)
<b>(Loss)/profit after tax</b>	<b>(1,353)</b>	631

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 profit before interest, taxation, depreciation, amortisation, fair value adjustments on investment properties and exceptional items.

3. Adjusted operating (loss)/profit excludes fair value adjustments on investment properties and exceptional items.

4. Adjusted (loss)/profit 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.

## BASIS OF PRESENTATION OF FINANCIAL RESULTS

Heathrow Airport Limited (the 'Company') has prepared its financial statements and financial review in accordance with FRS 102.

The financial information presented within these financial statements has been prepared on a going concern basis. We have a strong liquidity position and do not forecast any covenant breach during 2021 under our current traffic scenario, while acknowledging that the impact of COVID-19 continues to create considerable uncertainty for the aviation industry. Under certain severe but plausible scenarios, the Company may need to take additional action within our control to mitigate against any debt default covenant breach. More detail can be found in the going concern statement on page 132.

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 Company's operations. The APMs have been updated to include exceptional costs which is new for the year and the rest remains consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2019. A reconciliation of our APMs has been included on page 169.

The Company 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 Company's result between periods. The exceptional items are material items of expense that are considered to merit separate presentation because of their size or incidence. They are not expected to be incurred on a recurring basis.

## SUMMARY PERFORMANCE

In the year ended 31 December 2020, the Company's revenue declined by 59.4% to £1,208 million (2019: £2,976 million). Adjusted EBITDA declined 86.1% to £254 million (2019: £1,828 million). The Company recorded a £1,353 million loss after tax (2019: £631 million profit).

## REVENUE

In the year ended 31 December 2020, revenue declined 59.4% to £1,208 million (2019: £2,976 million).

Year ended 31 December	2020 £m	2019 £m	Var %
Aeronautical	647	1,831	(64.7)
Retail	234	722	(67.6)
Other	327	423	(22.7)
<b>Total revenue</b>	<b>1,208</b>	<b>2,976</b>	<b>(59.4)</b>

Aeronautical revenue declined by 64.7%. Aeronautical revenue per passenger increased 29.2% to £29.26 (2019: £22.64). The decline in aeronautical revenue is predominantly due to reduced passenger numbers. The average revenue per passenger is largely distorted by the reduced traffic number and an increase in cargo movements which are charged on a per movement basis.

## RETAIL REVENUE

Year ended 31 December	2020 £m	2019 £m	Var %
Retail concessions	97	342	(71.6)
Catering	19	64	(70.3)
Other retail	43	113	(61.9)
Car parking	40	125	(68.0)
Other services	35	78	(55.1)
<b>Total retail revenue</b>	<b>234</b>	<b>722</b>	<b>(67.6)</b>

Retail revenue declined by 67.6% driven by reduced passenger numbers and mix of retail service available. Retail revenue per passenger increased 18.5% to £10.58 (2019: £8.93). Retail income per passenger is largely distorted due to the reduced passenger numbers.

## OTHER REVENUE

Year ended 31 December	2020 £m	2019 £m	Var %
Other regulated charges	118	239	(50.6)
Heathrow Express	23	22	4.6
Property and other	186	162	14.8
<b>Total other revenue</b>	<b>327</b>	<b>423</b>	<b>(22.7)</b>

Other revenue decreased 22.7% in 2020 to £327 million. Property and other revenues grew 14.8% driven by rail track access charges. Other regulated charges declined 50.6% predominantly because of fewer passengers and aircraft movements impacting the ability to recover running costs.



## ADJUSTED OPERATING COSTS

Adjusted operating costs decreased 17.0% to £954 million (2019: £1,148 million). Operating costs were down 30.4% during the fourth quarter in isolation compared to the same period last year. In response to COVID-19, Heathrow's management implemented a cost reduction programme which delivered £303 million of net savings compared to the budget published in our December 2019 investor report. Furthermore, taking account of the provision for expected credit loss on debtors of £12 million and expansion related people costs of £79 million that were previously capitalised, gross savings amounted to £394 million. Adjusted operating costs per passenger increased by 204.2% to £43.17 (2019: £14.19).

Year ended 31 December	2020 £m	2019 £m	Var %
Employment	310	367	(15.5)
Operational	244	290	(15.9)
Maintenance	130	163	(20.2)
Rates	114	116	(1.7)
Utilities and other	156	212	(26.4)
<b>Adjusted operating costs</b>	<b>954</b>	<b>1,148</b>	<b>(17.0)</b>

The management initiatives driving a total of £303 million in net savings, or £394 million in gross savings, were largely implemented across April and May, with a second wave of initiatives launched in October in response to the lower traffic outlook in 2020 and 2021. They included a company-wide pay reduction, restructuring of the organisation, operating on a smaller footprint, renegotiating our suppliers' contracts and stopping all non-essential costs. We also used the Government's furlough scheme which reduced our people costs by circa £34 million. These cost saving initiatives were partially offset by increased business resilience costs and a provision for expected credit loss on debtors mentioned above. Governmental business rates represent 13% of our cost base and are the single cost we have been unable to meaningfully reduce despite 73% decrease in traffic and associated trade. Operating costs per passenger are largely distorted due to the reduced passenger numbers and the fixed nature of our cost base in the medium term.

## OPERATING (LOSS)/PROFIT AND ADJUSTED EBITDA

In the year ended 31 December 2020, the Company recorded an operating loss of £1,114 million (2019: operating profit of £1,135 million). In addition to lower revenue, the loss was driven by a reduction in the non-cash fair value of our investment properties of £412 million and exceptional items of £182 million.

Adjusted EBITDA decreased 86.1% to £254 million (2019: £1,828 million), resulting in an Adjusted EBITDA margin of 21.0% (2019: 61.4%).

Year ended 31 December	2020 £m	2019 £m
<b>Operating (loss)/profit</b>	<b>(1,114)</b>	<b>1,135</b>
Depreciation and amortisation	774	736
<b>EBITDA</b>	<b>(340)</b>	<b>1,871</b>
Exceptional items	182	–
Exclude fair value loss/(gain) on investment properties	412	(43)
<b>Adjusted EBITDA</b>	<b>254</b>	<b>1,828</b>

**EXCEPTIONAL ITEMS**

In the year ended 31 December 2020, there was an exceptional charge of £182 million (2019: nil) to the income statement.

Year ended 31 December	2020 £m	2019 £m
Business transformation	90	–
Asset impairment and write-off	92	–
Exceptional pre-tax charge	182	–

As a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Company has undergone a business transformation in order to simplify operations and reduce costs. Following this review the Company incurred £90 million of exceptional charges, consisting of £140m of people-related costs, principally redundancy, partially offset by a net £50m credit associated with corresponding pension settlements and curtailments – refer to Note 16 for further details. £13 million relating to the business transformation programme is included within provisions at 31 December 2020 and is expected to be settled within the next financial year.

In addition, the Company has recognised a non-cash impairment and write-off charge of £92m on assets in the course of construction. While the vast majority of expansion assets remain on the balance sheet at year-end, a number of partially complete projects have been placed on hold, some of these projects are unlikely to be re-started in the foreseeable future or are unlikely to be restarted without material changes to the original proposal design, £82m of costs incurred to date on these projects have been impaired. In addition, £10m of costs which relates to forecast re-work, which will be required as a result of the estimated delay to the Expansion programme, have been impaired.

**(LOSS)/PROFIT AFTER TAX**

For year ended 31 December 2020, the Company recorded a loss before tax of £1,529 million (2019: £819 million profit) and a loss after tax of £1,353 million (2019: £631 million profit).

Year ended 31 December	2020 £m	2019 £m
<b>Operating (loss)/profit</b>	<b>(1,114)</b>	1,135
Net finance costs before certain remeasurements	<b>(268)</b>	(411)
Fair value (loss)/gain on financial instruments	<b>(147)</b>	95
<b>(Loss)/profit before tax</b>	<b>(1,529)</b>	819
Taxation credit/(charge)	<b>176</b>	(188)
<b>(Loss)/profit after tax</b>	<b>(1,353)</b>	631

Net finance costs before certain remeasurements were £268 million (2019: £411 million) due to RPI growth rate for the year to December 2020 falling to 1.5%, down from 3.0% in the same prior period.

Fair value losses on financial instruments increased to £147 million (2019: £95 million gain) as a result of a decrease in interest rate expectations due to the global economic crisis which observed an average 60 bps downward shift of the 6-month LIBOR curve.

## TAXATION

The total tax credit for the year ended 31 December 2020 was £176 million (year ended 31 December 2019: tax charge of £188 million), representing the sum of the tax credit on profits before certain re-measurements and exceptional items and the tax credit on certain re-measurements and exceptional items. The tax credit before certain re-measurements and exceptional items for the year ended 31 December 2020 was £111 million (2019: £164 million tax charge), resulting in an effective tax rate of 14.1% (year ended 31 December 2019: 24.1%). The effective tax rate being lower than (2019: higher than) the statutory rate of 19% (2019: statutory rate of 19%) primarily due to non-deductible expenses reducing the tax credit for the year (2019: primarily due to non-deductible expenses increasing the tax charge for the year). For the period, the Company received corporation tax refunds from HMRC of £67 million (year ended 31 December 2019: £98 million paid to HMRC).

## CAPITAL EXPENDITURE

Total capital expenditure in 2020 was £423 million (2019: £857 million) excluding capital creditors movement or £521 million (2019: £856 million) including capital creditors movement. We invested £356 million (2019: £620 million) in a variety of programmes to ensure the safety and resilience of the airport. We also invested £68 million in the year (2019: £236 million) on plans to expand the airport mostly before the Court of Appeal's judgement was announced.

Investment has focused on Hold Baggage Screening ('HBS') upgrade works, main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained and renewal of assets that have come to the end of their economic life. Expansion-related capital expenditure included Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Since 2016, we have invested £381 million in Category B costs and £127 million in Category C costs, a total of £508 million (before capitalised interest and after £10 million of re-work impairment) is carried in our balance sheet as assets in the course of construction.

## RECENT FINANCING ACTIVITY

Despite a much more challenging market backdrop given the COVID-19 pandemic, continued confidence and support for our credit enabled us to raise £2.5 billion debt in 2020 across the capital structure in bond and loan format.

A total of £1.7 billion was raised by the Group alone, £50 million was raised at Heathrow Finance and a £750 million capital injection was secured via ADI Finance 2. A further £2.1 billion of debt signed prior to 2020 was drawn down during the first half of the year. These actions ensured we maintained a robust liquidity position throughout the year and provided additional duration and diversification to our £15 billion debt portfolio.

Class A financing activities included:

- The drawdown of £800 million in revolving credit facility and £100 million in working capital facility.
- A new £80 million term note maturing in 2040.
- A new €750m public bond maturing in 2025.
- A new £450m public bond maturing in 2029.
- A new C\$500m public bond maturing in 2031.
- The scheduled repayments of £4m on the EIB loan.

Class B financing activities included:

- The drawdown of £250m in revolving credit facilities.
- The drawdown of £381m in private placements.
- The drawdown of a £75m term note maturing in 2035.
- A new £182m index-linked private placement maturing in 2032.
- The scheduled repayment of a £400m public bond in March.

Financing activities at Heathrow Finance included:

- The drawdown of £485m in term loans with maturities ranging between 2026 and 2029.
- A new £50m term loan with a maturity in 2029.
- The cancellation of £22.5m of undrawn debt.
- The prepayment of a £150m term loan.

In addition, we restored the ADI Finance 2 Limited level of our capital structure with a £750 million facility signed with private international lenders. The net proceeds were injected into the Heathrow Finance Group, of which £600 million was pushed into the Heathrow SP Group.

Lastly, we reprofiled £5.6 billion of existing interest rate and inflation swaps and completed £4.9 billion of new interest rate swap transactions which will help to reduce interest payments over the next few years. The net impact of these transactions saw a prepayment in 2020 of circa £100 million and a reduction in interest paid in 2021 of circa £308 million.

## FINANCIAL RATIOS

At 31 December 2020, the Company continues to operate within required financial ratios. Gearing ratios under the Heathrow Airport Holdings Limited (or 'HAHL' as defined on page 80), Group's financing agreement are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB') and interest coverage ratios are calculated by dividing cash flow from operations excluding exceptional items (EBITDA adjusted for working capital movement less tax and 2% of RAB) by interest and equivalent recurring finance charges paid or forecast to be paid.

At 31 December 2020, Heathrow's RAB was £16,492 million (31 December 2019: £16,598 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 68.4% and 79.6% respectively (31 December 2019: 66.6% and 74.8% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 91.7% (31 December 2019: 86.5%) with a covenant of 95% following the waiver secured last July.

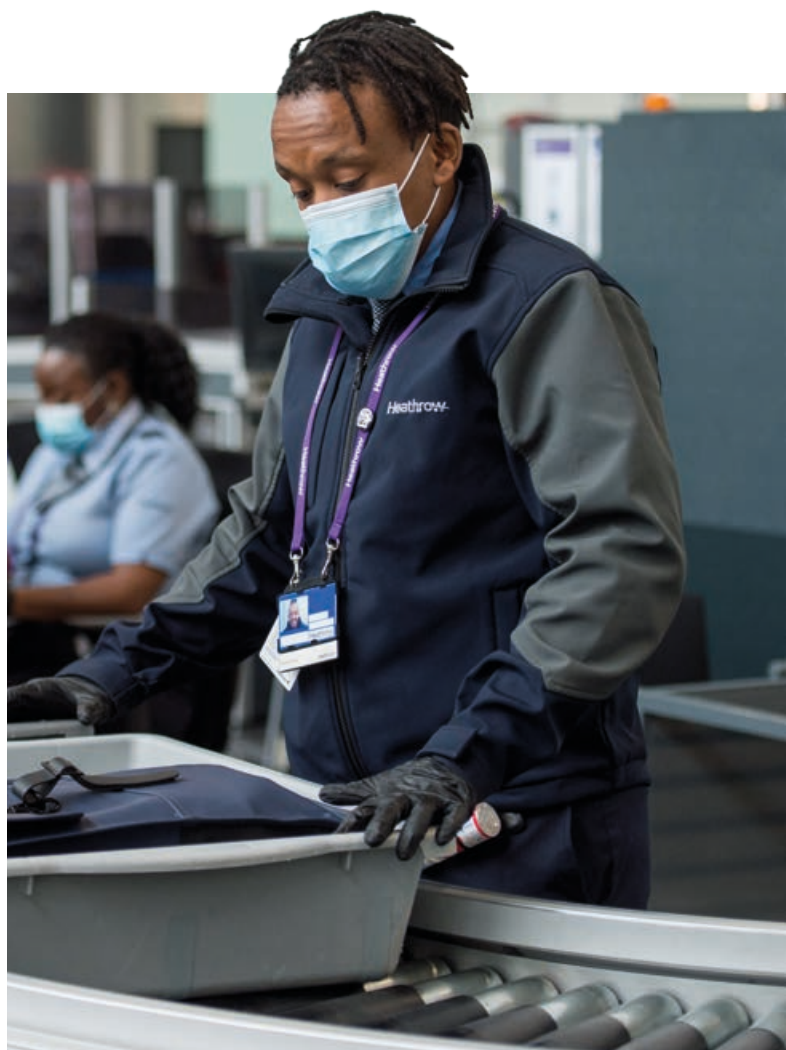
In the year ended 31 December 2020, the Group's senior and junior interest cover ratios were -0.50x and -0.43x respectively (2019: 3.74x and 3.15x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was -0.36x (2019: 2.71x) compared to a covenant level of 1.00x under its financing agreements.

As of 31 December 2020, a forecasting event and trigger event have occurred in relation to the forecast Interest Cover Ratios ('ICRs') for Class A and Class B debt for the financial year ending 31 December 2020. As a result, a distribution lock-up is in place within Heathrow SP and will have no adverse effect on Heathrow SP's creditors.

In July, we successfully received approval from Heathrow Finance's creditors (representing over 95% of the total debt) to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2020 and to amend the Regulatory Asset Ratio covenant from 92.5% to 95.0% and 93.5% for the financial year ending on 31 December 2020 and 31 December 2021 respectively.

Under our current traffic scenario, we do not forecast any covenant breach in 2021. As part of our going concern assessment, we have also considered a severe but plausible downside scenario whereby traffic reduced to 27 million passengers. In this downside scenario, we concluded that sufficient mitigations would be within management control to avoid any covenant breach.

Plausible scenarios below this 'severe but plausible' downside could cause Heathrow Finance to breach minimum levels required for covenant compliance. In this instance, management would need to undertake additional actions, which could include seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group's ability to continue as a going concern. This analysis is discussed in more details in our going concern disclosure.



## PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 December 2020, the defined benefit pension scheme, as measured under IAS 19, was funded at 100.3% (31 December 2019: 100.8%). This translated into a surplus of £12 million (31 December 2019: £33 million surplus). The £21 million decrease in the surplus in the 12 months is largely due to actuarial losses of £125 million, attributable to a decrease in the net discount rate of 0.8% offset by contributions in excess of current service cost of £55 million. In the year ended 31 December 2020, we contributed £78 million (2019: £49 million) into the defined benefit pension scheme including £20 million (2019: £23 million) in deficit repair contributions. Management believes that the scheme has no significant plan-specific or concentration risks.

**JAVIER ECHAVE**  
Chief Financial Officer

24 February 2021

# OUR APPROACH TO CAPITAL ALLOCATION

For us to generate stable long-term returns, significant investment is required. To make these investments we must ensure that we have access to appropriate capital in both the short and long-term. In March 2020, as a result of the impact of COVID-19, we took immediate action to protect the financial resilience of the business, conserve cash and reduce costs. We enacted a reduced capital plan with focus on projects which ensure the safety and resilience of the airport. The Board has also suspended the payment of dividends to shareholders until Heathrow's financial health is restored to an appropriate standing.

Our primary sources of capital are:

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

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

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

## RETAINING A STRONG BALANCE SHEET

We generate high quality operating cash flows. 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 economic risks in the long term.

As part of achieving this objective we are subject to regulation from the CAA. Directors are required to submit a "Certificate of Adequacy of Resources" to confirm that we expect to have sufficient financial resources, after taking 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 their consideration, 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.

## MAINTAINING OUR INVESTMENT IN THE BUSINESS

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

Our stakeholders benefit from the investment into the UK's only hub airport. We submitted our Initial Business Plan to the CAA in December 2019 which describes 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 Initial 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.

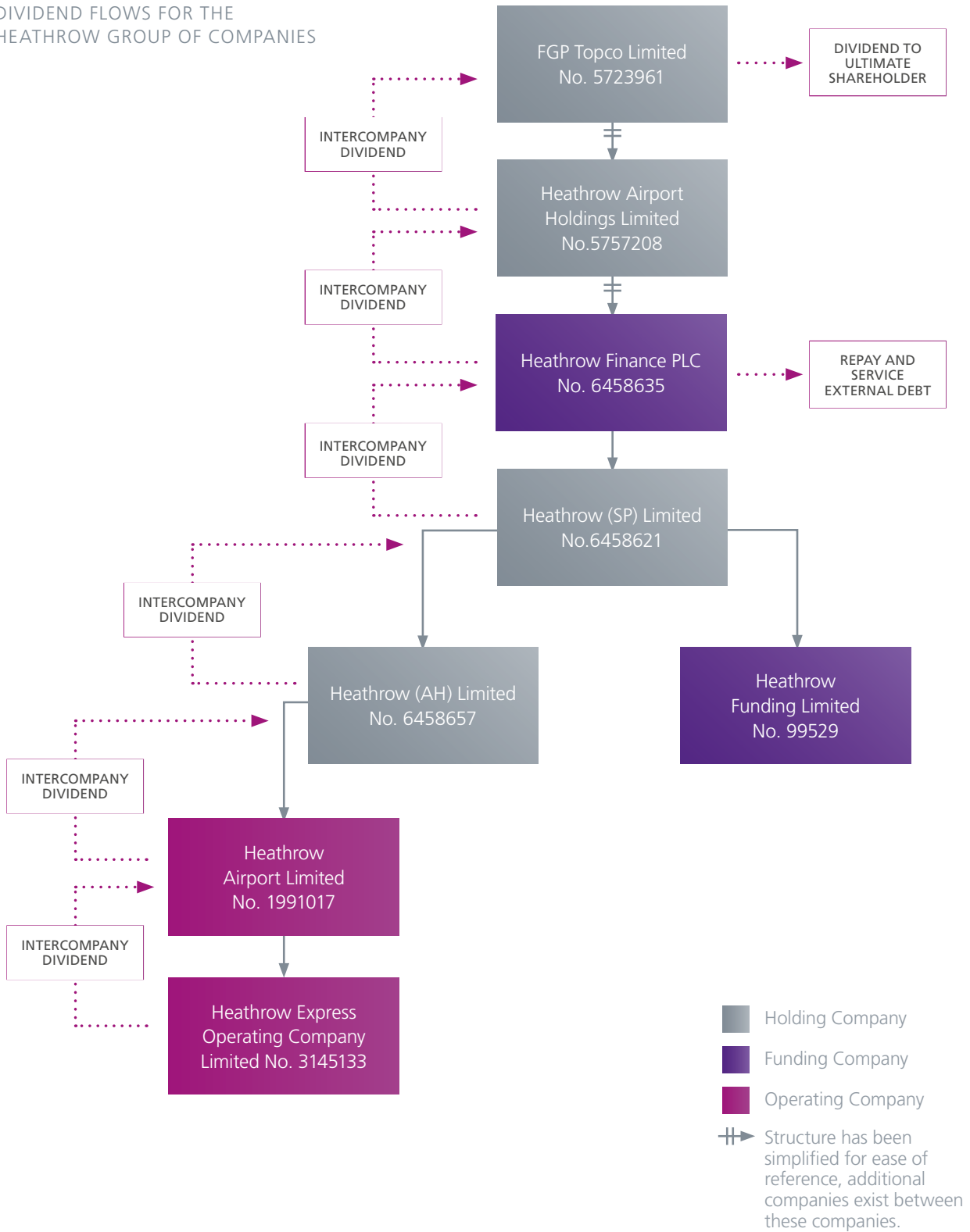
At times of significant investment, the Directors may seek additional capital from their shareholders. To obtain the capital, the Directors are required to demonstrate that they can continue to provide a fair future return in exchange for this investment.

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.

Dividends of £107 million (2019: £421 million) were paid to Heathrow (AH) Limited during the year. These were used to fund dividends of £100 million (2019: £500 million) to Heathrow's ultimate shareholders. This payment was made in February 2020 reflecting the cumulative outperformance before the significant impacts of COVID-19 on our industry were clear or anticipated. No further dividends were paid in 2020, meaning that foregone dividends in 2020 accumulated to £300 million.

DIVIDEND FLOWS FOR THE HEATHROW GROUP OF COMPANIES



# OUR APPROACH TO TAXATION

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

Our operations, whilst large, are conducted entirely from the UK with no overseas operations. Accordingly, we pay a range of UK taxes, such as corporation tax, employment taxes and stamp-duty land tax, and we are the country's largest single site payer of business rates, 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.

## APPROACH TO RISK MANAGEMENT AND GOVERNANCE

Heathrow's tax strategy was approved by the H AHL Board<sup>1</sup> in July 2020. Heathrow's tax strategy confirms:

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

<sup>1</sup> The H AHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 80.





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

Given the scale of Heathrow's 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. In terms of the furlough scheme, which we have utilised to protect jobs throughout the pandemic, we are in ongoing communication with HMRC and following all the guidance, while maintaining records of relevant data and processes.

We are vigilant in the creation and maintenance of robust processes for recording the right amount of tax while ensuring that we are adequately staffed with clearly defined roles and that 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 that 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

Heathrow pays UK tax in accordance with all laws and regulations. As part of the business and commercial operations, Heathrow seeks to utilise available tax reliefs, incentives and exemptions in line with both the intent and letter of tax legislation whilst having no involvement in tax planning other than that which arises from genuine commercial activity. This means that Heathrow will not structure transactions in a way which gives a tax result contrary to the intentions of Parliament nor adopt measures to manage its effective tax rate.

### ACCEPTED LEVEL OF RISK

Heathrow's 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, Heathrow has a low tax risk appetite. The approach is to mitigate any risk by taking reasonable care whilst also considering Heathrow's brand reputation and the wider airport community. Heathrow is also committed to ensuring that tax evasion is not facilitated and has implemented procedures to prevent such behaviour.

### APPROACH TO HM REVENUE & CUSTOMS ('HMRC')

Heathrow seeks 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.

Heathrow seeks 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.



**CAROL HUI**  
Chief of Staff and General Counsel

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

The framework provides guidance on how risks should be identified, mitigated, reviewed and reported within Heathrow. During 2020, 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 H AHL Board<sup>1</sup> has overall responsibility for the framework and for reviewing the effectiveness of the risk-response system. There are two H AHL 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.

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets on a monthly basis. 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 H AHL Board on a quarterly basis.

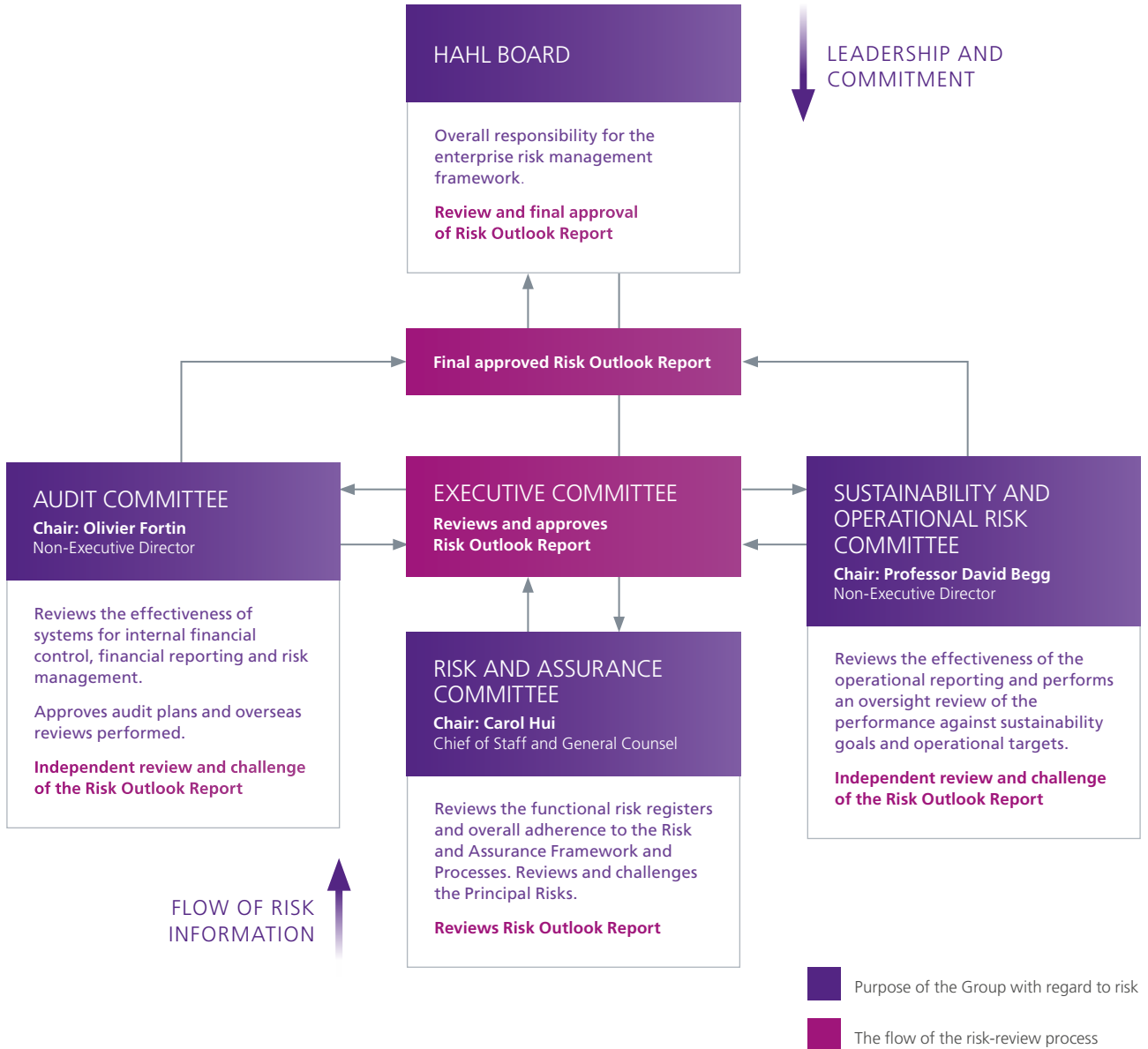
Principal risks have been identified at an Executive level ensuring a comprehensive top-down approach to risk identification. A Principal Risk is a risk that has been identified by the H AHL Board, its formal committees, the Executive Committee, or the Risk and Assurance Committee, as an important risk 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.

Post 2019 year end the emergence and spread of COVID-19 has significantly changed the risk landscape at Heathrow. The pandemic is having a material impact on our operations and financial performance and management continue to assess and respond to its impact. The additional risks related to the impact of the pandemic include risks relating to the safety of passengers and colleagues; significant financial loss from a material reduction in passengers; liquidity risks and potential restrictions on access to finance including a higher risk of a covenant breach; failure of key customers and suppliers, and operational risks from an increased exposure to cyber-attack, remote working and organisational restructuring.

We took immediate action to respond to these risks (as detailed on page 24). We have engaged with government to implement their advice in order to protect our passengers, airlines and other stakeholders. We have safeguarded Heathrow's financial resilience by reducing operational costs and capital expenditure; liaising with financiers and credit rating agencies to secure covenant waivers; supporting our airline customers by providing free aircraft parking and reviewing our supplier portfolio to better understand our reliance and mitigate risk from failures. We continue to monitor and respond to an evolving and fast changing situation. We are working closely with all key stakeholders to secure the long-term future of the business, and to achieve this we have a robust plan in place to protect the business, win the recovery and build back better.

<sup>1</sup> The H AHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 80.

RISK MANAGEMENT



# OUR PRINCIPAL RISKS

The risks outlined are the principal strategic, corporate and operational risks identified during the year. This is a current point-in-time assessment of the risk profile that the Company faces as at 31 December 2020. As the risk environment evolves these risks are being constantly reviewed and updated.

PRINCIPAL RISK	<b>A safe and secure operating environment</b> 	<b>Information security</b> 	<b>Regulation requirements</b> 
<b>DETAIL</b>	<p>Keeping people safe is our top priority. We have a legal and moral responsibility to ensure that we safeguard the wellbeing of our people, and also our business partners and the public who may be affected by our activities, from the risks relating to fire, health, and safety. An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks. In 2020, COVID-19 has added to those risks and the complexity of their management. Failure to operate a safe and healthy environment risks damaging the health and wellbeing of stakeholders, impacting colleague engagement, operational disruption and costs, inconvenience to passengers and long-term damage to our reputation.</p> <p>The UK security threat level is severe. 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.</p>	<p>Information security, which refers primarily to our systems and information and the data contained in them, continues to be a risk for us. Malicious cyber-attack is a continued risk given the size and breadth of our network and operating environment. Attacks continue to be more sophisticated and prevalent. In addition, new ways of working following the COVID-19 crisis have also resulted in an increased risk profile.</p>	<p>We are currently 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.</p>
<b>RISK MITIGATION STRATEGY</b>	<p>Our fire, health and safety ('FHS') management system includes risk assessment processes for all activities that have significant risk and ensures proportionate control measures are used. We set FHS standards for our own operations and companies that work at our airport. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles.</p> <p>Governance, led by our senior management teams, and assurance processes are used to ensure that controls around health-and-safety risks remain effective and continuous improvement is encouraged. In the current year our safety improvement team has initiated a new '4 pillar' safety plan which is designed to improve the fundamental building blocks of a safe operating environment and safety culture. Colleagues' health and wellbeing is promoted and supported by a range of products and services including our Employee Assistance Programme, online GP service and information and tools for managers and colleagues.</p> <p>COVID-19 specific risks have been addressed within our Fly Safe programme. We have invested in UK aviation's most extensive array of COVID-19-secure technologies. New rapid testing technologies are already helping to open up overseas markets safely. We work with government agencies to ensure security procedures are appropriate and mitigate evolving threats. Procedures are subject to review through the internal controls mechanism and via independent scrutiny from the CAA.</p>	<p>Under the direction of a newly formed Cyber Security Directorate, we are implementing an improved cyber-security programme which will ensure strong technical and operational measures are in place to enable us to comply with our regulatory and legal requirements. Mandatory training has been successfully rolled out along with regular awareness campaigns with emphasis on phishing emails and the use of social media. The cyber-security programme will continue to make improvements across all parts of Heathrow into 2021.</p>	<p>The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated regulatory team. This team ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and HAHL Board on regulatory matters. The regulatory framework requires formal engagement with airline customers. All airlines are invited to be represented on engagement forums – for example joint steering groups. In addition, key stakeholders are engaged on a joint planning basis which provides the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood. We worked closely with airlines, the CAA and other stakeholders as we developed Heathrow's Revised Business Plan for the H7 regulatory period which was published in December 2020. In parallel we are engaging on our application for an adjustment to the RAB to recover an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. Both the H7 settlement and the enactment of any RAB adjustment are highly uncertain at this stage. There is a material risk for both that, based on regulatory publications to date, the regulator could fail in practice to enact established regulatory principles such as a fair balance of risk and return or the return of regulatory depreciation. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority.</p> <p>Following the Court of Appeal ruling setting aside the ANPS, the CAA began a review of its policy on the recovery of expansion costs. The CAA has proposed that all costs efficiently incurred until the end of February 2020 related to the delivery of expansion can be recovered from 2022. It is also proposing to implement a similar policy for the recovery of wind down and Supreme Court Appeal costs. A final policy is due to be established in Q1 2021.</p> <p>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.</p>
<b>LINK TO STRATEGIC PRIORITIES</b>	 	 	

<p>PRINCIPAL RISK</p>	<p>Legal status of Airports National Policy Statement ('ANPS')</p> 	<p>Reduced revenue</p> 	<p>Liquidity and ability to access finance</p> 
<p><b>DETAIL</b></p>	<p>In June 2018 the Secretary of State for Transport designated the ANPS providing policy support for Heathrow expansion. In February 2020, the Court of Appeal held that the ANPS was not lawfully made because the Secretary of State was required but failed to take into account the Paris Agreement and other climate change matters. The Court of Appeal declared that the ANPS has no legal effect unless and until it is reviewed by the Government under statutory procedures. We appealed this decision. Our appeal was heard by the Supreme Court in October 2020 and judgment issued on 16 December 2020. The Supreme Court unanimously allowed our appeal meaning the ANPS has been reinstated. Following the judgment, it is still possible that the Government may decide to review the ANPS.</p>	<p>COVID-19 has led to an unprecedented decline in passenger volumes and revenues. These circumstances have been exacerbated by the regulatory and policy environment - Government has imposed quarantines, delayed the introduction of testing solutions, removed VAT Free shopping and excluded Heathrow from full business rates alleviation. Retail has been the largest non-aeronautical income stream impacted. Refer to the going concern assessment in the 'Accounting Policies' on page 132.</p>	<p>We need to continue to be able to access finance to fund our current operations.</p>
<p><b>RISK MITIGATION STRATEGY</b></p>	<p>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 consulting with the Government, the CAA and other stakeholders on the next steps to progress our plans. Refer to 'Our Commitment to Sustainable Growth – Expansion' page p44.</p>	<p><b>Aviation</b> Our strategic response to protect revenues and drive passenger volumes has been:</p> <ol style="list-style-type: none"> <li>1. Where possible, getting our incumbents to fly the slots which they have – informed by our intense lobbying on slot waiver and desire to offer growth incentives where sustained return to flight looks plausible.</li> <li>2. Encouraging consolidation of airlines' London operations at Heathrow; as successfully done with BA and VS.</li> <li>3. Where slots are not flown, gaining access to those slots to maximise ad-hoc slot utilisation and particularly new entrant operations (9 secured in 2020).</li> </ol> <p>The above approach is underpinned by a cargo operation which has allowed airlines to switch their operations to cargo-only and / or 'freighters' (passenger planes temporarily converted to freighters) and by an approach to aeronautical pricing which supports airlines building back their schedules in 2021 whilst recognising the increasing importance of cargo and the reality of lower load factors.</p> <p>In order to protect our right to recover the costs which we have incurred in good faith in order to allow all our airlines to fly any passenger, any route, all cargo throughout the pandemic, we have taken swift action to reduce costs in 2020. We will either apply the 'Other Regulated Charges' ('ORC') protocol through increased unit costs throughout 2021 or progress an alternate airline proposal to secure the under-recovered cost base.</p> <p><b>Retail</b> Key measures implemented to contain the impact on retail income include:</p> <ol style="list-style-type: none"> <li>1. Close monitoring and balance of assessed debt and contractual fixed income guarantees in order to maximise overall retail revenue.</li> <li>2. Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deed with minimal level of disruption and delays (e.g. lending locations to businesses that could make immediate use of the structure 'as is').</li> </ol>	<p>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.</p> <p>We have invested in a suitably skilled Treasury and Investment team who have robust procedures in place to ensure that the best quality investment decisions are made, and that investments can be appropriately financed.</p> <p>Realisation of Principal and other risks could deteriorate the quality of our credit rating and increase this risk.</p>
<p><b>LINK TO STRATEGIC PRIORITIES</b></p>			

PRINCIPAL RISK	<b>Resilience of Team Heathrow</b> 	<b>Ineffective organisation – systems/people</b> 	<b>Political environment</b> 
<b>DETAIL</b>	<p>The COVID-19 pandemic has had a significant impact on the aviation industry, as well as more widely on the other key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that a sustained lack of resilience across the wider Team Heathrow has an impact on our ability to provide the service levels and passenger experience our passengers and airlines expect.</p>	<p><b>Systems</b> - We are constantly adapting to our internal and external requirements. Existing systems and processes become unsuitable, outdated and need to evolve to meet the needs of our business.</p> <p><b>People</b> - We rely on our people to ensure that we operate effectively. External and internal requirements put pressure on colleagues, particularly during the COVID-19 pandemic, with the additional risk of a threat of industrial action.</p>	<p>Our ability to meet passenger and cargo demand is reliant on political support. Changes to the Government, and therefore to government priorities, can impact material decisions that are taken by us. The implementation of Brexit and COVID-19 related restrictions has the potential to impact airline operations which may cause disruption to our passengers, impact immigration, cargo operations, our supply chain, and our people.</p>
<b>RISK MITIGATION STRATEGY</b>	<p>We continue to work closely with our airline customers, retailers and wider stakeholders during the pandemic. 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.</p> <p>Across our supply chain, our Supplier Management function monitors the real-time financial risks associated with our critical suppliers (e.g. financial strength, likelihood of insolvency, liquidity, credit worthiness, compliance with payment terms, etc.). This monitoring enables early sight of potential insolvency risks, which are initially investigated by Supplier Management and highlighted immediately to relevant Commercial Managers, allowing risks to be managed by all relevant stakeholders and mitigated.</p>	<p><b>Systems</b> - 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 2020 we launched a project to upgrade our financial and people ERP system to support working in a simpler, more agile and cost-effective way.</p> <p><b>People</b> - We continue to invest in our people and have a strategy to ensure the development of talent. 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. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.</p>	<p>We continue to make a strong case for our place in aviation and the wider economy and the part we play in Global Britain, and we explain the benefits that our ability to meet the UK's demand for long-haul travel brings. Whilst a change in the Government's focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary. We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAH Board, which has implemented a structured approach to the identification and management of all risks related to Brexit and Government COVID-19 policy.</p> <p>With regard to Brexit, we have made preparations to ensure the continued safe and secure operation for passengers and cargo with a plan jointly created with stakeholders to deliver predictable and appropriate processes which minimise the pre and post Brexit impacts.</p>
<b>LINK TO STRATEGIC PRIORITIES</b>	  	   	  

PRINCIPAL RISK	Competition 	Net Zero Carbon 
<b>DETAIL</b>	<p>We compete against other airports both within the UK and across the world for passengers; some make marginal choices, particularly connecting passengers, about which route to fly. The impact of COVID-19 has closed many global aviation markets as governments seek to control the spread of the virus and led many airlines to materially reduce their flying schedules or even cease flying to some airports altogether. As a result, there is currently spare capacity across all of the airports in the 'London system' including Heathrow, and also across our European Hub competitors.</p>	<p>Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow, working with the wider industry, must set firmly on a path to net zero and demonstrate real progress in this decade. Heathrow follows the TCFD recommendations and climate related risk is therefore considered under the following categories:</p> <p><b>Transitional risks</b> – Transitional risks relate to the decarbonisation of Heathrow and the aviation sector to achieve Net Zero carbon emissions. Political, consumer and investor attitudes to aviation's climate impacts will become more negative without tangible progress to cut emissions and confidence in the sectors Net Zero plan, threatening our ability to recover, operate and grow.</p> <p><b>Physical risks</b> – Physical risks relate to the resilience of our assets, operations and network to the negative impacts of climate change including more extreme weather events</p> <p>These risks are presented in greater detail in the TCFD section on page 64.</p>
<b>RISK MITIGATION STRATEGY</b>	<p>Our primary focus is to ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users, with no degradation to the experience of our passengers and colleagues despite the impact of COVID-19. Maintaining commercial strategies that enable us not only to remain affordable but will actually make us more competitive is also important to retain key passenger groups.</p>	<p>The UK aviation sector, including Heathrow, has committed to Net Zero carbon and published a joint roadmap to get there. The aviation sector roadmap sets a clear industry goal for tackling climate change and focuses attention on the actions that will be needed to meet it. We published our 'Target Net Zero' strategy to guide our approach to decarbonisation and aligned to the broader aviation sector roadmap. 'Target Net Zero' frames the priorities and progress we plan to deliver in the short to medium term as well as what will be required to achieve net zero.</p> <p>The significant priority is accelerating net zero flying in the 2020s by securing the right policies for Sustainable Aviation Fuel ('SAF') production at scale in the UK and building a high ambition coalition globally for net zero aviation and SAF. To ensure and support the delivery of our strategy, 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.</p>
<b>LINK TO STRATEGIC PRIORITIES</b>		

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



I am pleased to take on responsibility for climate change, further strengthening the climate change governance of our Board.

**OLIVIER FORTIN**

Non-Executive Shareholder Director

Climate change is the biggest medium to long-term risk for our business and addressing it is one of our strategic priorities. It is right that we maintain a long-term view and continue to strengthen our approach to climate risk.

Tackling climate change has been embedded into how we run our business and is therefore a theme that runs throughout our annual report.

In this section we provide an overview of the changes we have made to our business to increase our management focus on climate change and 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 where you can find further information on our approach to climate change and the action we are taking that supports our disclosure.

We recognise the importance and value of the recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosures and remain committed to open and transparent disclosure. As a member of the Prince of Wales Accounting for Sustainability Project ('A4S'), we have adopted the A4S maturity criteria to assess and benchmark our progress in implementing the TCFD recommendations. In our second year of climate-related risk disclosure we have implemented or have progressed all areas necessary for this to be considered a 'full disclosure'.

There is more we can do, and we remain committed to improving our approach to assessing and managing climate-related financial risks and reporting on our progress transparently and following leading practice.

We have updated our scenario analysis in line with best practice. In partnership with the Cambridge University Institute of Sustainable Leadership ('CISL'), we are also funding a research fellow who will undertake research to evolve Airport climate-risk scenario analysis further. The research project is focused on exploring the interrelationships between physical and transition risks and the findings will help to improve the airport and aviation sector's understanding of, and its ability to assess, the risks that climate change will create. In 2020, the Fellow was appointed by CISL and we look forward to the 3-year research project commencing at the beginning of 2021, and building this fresh insight into our risk assessment process.

As well as improving our understanding of climate-related financial risk and implementing the TCFD recommendations, we have also strengthened our approach to sustainable financing. We have developed a sustainability investment appraisal tool to help us make sustainable as well as financially sound investment decisions. This is being embedded into our capital allocation process. We have also sought to promote sustainable finance more broadly and demonstrate leadership. Our defined benefit pension scheme trustee has adopted an investment policy prioritising sustainable investment and we have linked the margin of our revolving credit facilities to ESG performance measures.



Disclosure recommendation	Section Reference	Page
<b>Governance</b>		
Describe the Board's oversight of climate-related risks and opportunities.	Our commitment to sustainable growth	31
	Our approach to risk management	58
Describe management's role in assessing and managing climate-related risks and opportunities.	Our principal risks	60
	TCFD	67-71
<b>Strategy</b>		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.	TCFD	67-71
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Our commitment to sustainable growth	31
	TCFD	67
Describe the resilience of the organisation's strategy, taking into consideration different future climate scenarios, including a 2°C or lower scenario.	TCFD	67-71
<b>Metrics</b>		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities.	TCFD	67
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.	Our commitment to sustainable growth	42
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Our commitment to sustainable growth	42
<b>Risk</b>		
Describe the organisation's processes for identifying and assessing climate-related risks.	Our commitment to sustainable growth	31
	Our approach to risk management	58
Describe the organisation's processes for managing climate-related risks.	Our commitment to sustainable growth	31
	Our approach to risk management	58
	Our principle risks	60
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Our approach to risk management	58

## GOVERNANCE

### Board oversight

The HAHL<sup>1</sup> Board has received regular climate updates through the CEO's updates to the Board. A planned Board carbon 'masterclass' at the Cambridge Institute for Sustainability Leadership was postponed due to COVID 19. Carbon has been a key theme in the development of our COVID-19 recovery plan, endorsed by the Board. The final phase of our plan is focused on 'building back better' and includes addressing climate change at its heart. Climate change is regularly included as an agenda item at Board and Executive strategy days.

The HAHL Board<sup>1</sup> reviews principal risks, which includes climate risks, that have been 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 Board.
- The Audit Committee, a sub-committee of the Board.

Board engagement has also been important in shaping Heathrow's Target Net-Zero plan. The Plan sets out our strategic response to the risks facing our business from the transition to a net-zero economy and limiting the effects of climate change. The Plan was published in January 2020 and it aligns with wider aviation industry plans to decarbonise.

The Audit Committee reviews material financial climate risks and the preparation and content of our TCFD disclosure. In 2021, the Chair of the Audit Committee assumed a responsibility for climate change to further strengthen governance on climate at Board level. The 'Climate Change Director' role will ensure that climate change is a material consideration in Board discussion and decision-making, strengthen the Board's oversight of climate-related risks and opportunities, and ensure these are considered appropriately in our strategic business planning.

<sup>1</sup> The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 80.

The Sustainability and Operational Risk Committee is a subcommittee of the H AHL Board<sup>1</sup> 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.

Some Board members have climate change experience and we have increased overall skills and experience through periodic training. A Board climate capacity building session took place in late 2019. Due to the focus on COVID-19 these were not run during 2020, however opportunities to build on this are planned for 2021.

### Management structure and approach

In 2020, the restructuring of the company in response to COVID-19 led to the creation of a Carbon and Strategy directorate, led by the Chief Carbon and Strategy Officer who sits on the Executive Committee. They are supported by a dedicated Carbon team which increases our focus and capability on the climate agenda.

We have invested in sustainability leadership across the company through a 'Leading Sustainable Growth Programme' that builds understanding and empowers colleagues to lead on our sustainability agenda including climate change. Carbon issues also feature in our Heathrow 2.0 sustainability plan which is shared and owned across the company. We have run specific initiatives to support our senior leadership team which include a climate 'Immersion Programme' for the Executive Management Team led by the Cambridge Institute for Sustainable Leadership in late 2019, and climate expert speaker slots at Executive Committee meetings. Our CFO is a member of Accounting for Sustainability's CFO Leadership Network and a regular speaker at the A4S Academy to inspire and coach future climate leaders.

To ensure that remuneration is aligned to Heathrow's carbon and sustainability targets, it is our intention to introduce an ESG performance metric to future incentive plans, which will focus individual behaviour on making sustainable choices and reward sustainable outcomes.

### RISK MANAGEMENT

Climate risks are included as part of our overall risk management framework (see page 58). This year we have aligned our internal assessment and reporting of climate risks with the TCFD framework. We have adopted similar terminology, given clearer emphasis to both our transition and physical risks and ensure we report using a consistent format.

#### Scenario analysis and the assessment of climate risks

In line with the TCFD recommendations we have used scenario analysis to assess our material financial risks and we have considered 1.5°C, 2°C and 4°C scenarios to provide the broadest view of possible outcomes.

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

<sup>1</sup> The H AHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 80.

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

- ICAO.
- Sustainable Aviation.
- The Air Transport Action Group ('ATAG').
- National Grid Future Energy Scenarios.
- UK Climate Change Committee.
- Heathrow climate change assessments.
- UK Climate Projections 2018 ('UKCP18').
- International Energy Agency ('IEA').

As a UK based airport, we have focused on assessments that most closely describe our local market, national policy and climate, in particular, those from the UK's Climate Change Committee ('CCC'). The UK CCC's 'Widespread Innovation Scenario' is broadly based on delivering the industry roadmap and most closely aligns with our current view. We have therefore used this scenario to represent our current view in the analysis.

The more significant climate risks are assessed in terms of their financial impact including quantification where that is possible.

Scenario analysis is used to improve our understanding of Heathrow's climate risk exposure, and the insights are built into our internal assessment of risk following our company's risk management framework.

## METRICS AND TARGETS

One of our four strategic priorities is Sustainable Growth and our Heathrow 2.0 sustainability plan, launched in 2017 sets out how we will deliver this priority. We have made significant progress in the last four years and the plan will be refreshed in 2021, incorporating the latest climate change developments, and our strategic response to them.

We published our Target Net-Zero plan in early 2020 to support the aviation industry to get to net-zero emissions by 2050 and our airport to zero carbon by the same date. Our section on climate change provides more detail on the plan, the progress we have made during 2020 on delivering our plan and our 2019 carbon footprint which shows our emissions performance. Our 2020 footprint will be published later in 2021 (see page 42).

We have publicly committed to setting a climate-science-aligned target using the Science Based Targets initiative ('SBTi') criteria. We are currently developing carbon targets that are aligned to limiting temperature rises to 1.5°C and will be published in 2021.

## OUR CLIMATE-RELATED RISKS

Climate change presents a significant set of strategic risks for aviation and for Heathrow. Over the next decade or so, 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 Government, consumers choosing to fly less, and more difficulty and cost attracting equity and borrowing. Those transition risks could threaten our ability to recover from the pandemic, to operate, and to grow.

In the medium 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. Heathrow's assets and operations do face some risks from more extreme weather, but these are likely to be manageable with the right operational measures and capital investment. However, the physical effects of a changing climate could have significant knock-on impacts on the global economy, particularly in higher temperature scenarios, with inevitable impacts in turn for the aviation sector.

In the following section we build on our 2019 disclosure and provide an update to our material financial climate risks, setting out the nature of the risk to our business, how we are addressing the risk and its potential impact to Heathrow. While climate change is primarily a risk for aviation and Heathrow we also identify where opportunities may be created.

# TRANSITION RISKS



## Market & policy

### WHAT IS THE RISK

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

The government concludes that it is not possible to sufficiently decarbonise flying in line with the UK's net-zero targets and additional measures are needed to 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 lower demand for aviation.

Consumer sentiment towards flying becomes more negative and consumers prefer to fly less.

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

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

### HOW WILL THIS RISK AFFECT HEATHROW

We remain confident that it is possible for aviation to grow and to reach net-zero emissions. In early 2020 the UK aviation sector set a target of net-zero emissions by 2050. It published its roadmap to get there which enables the industry to grow by 70% and achieve net zero by that date. Europe followed suit and there is a growing global shift to net zero including specific commitments from airlines and airline alliances.

Both in the UK, and globally, a range of expert bodies have set out their analysis of aviation's pathway to net-zero emissions. There is broad agreement on the measures needed 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.

We have tested our current view on the transition to net zero with scenarios from expert bodies. We have considered a range of different scenarios in our assessment to understand different viewpoints. We have chosen to focus on scenarios developed by the UK's Climate Change Committee (CCC), the independent, statutory body established under the Climate Change Act 2008 that advises the UK government on emissions targets. The UK policy landscape will largely determine how our market evolves in future; therefore, the CCC scenarios reflect our business and future market most accurately.

In their latest advice to the UK Government for the sixth carbon budget, the CCC presented five scenarios where technologies to take the carbon out of flying developed at different speeds and hence different degrees of demand management were needed. The CCC's decision to include a 'Widespread Innovation Scenario' acknowledges recent industry progress and the potential for a faster uptake of sustainable aviation fuel which would enable growth of 50% and includes airport expansion. The 50% growth rate is higher than the CCC has considered historically. This scenario is most closely aligned to our current view and is broadly based on delivering the industry net-zero roadmap. We have therefore used this scenario to represent our current view in the analysis and it is compatible with Heathrow's current growth forecasts. The CCCs 'Balanced Net-Zero Pathway' scenario takes elements from each of the different scenarios and allows for passenger growth of 25% with no net airport expansion, lower than our current growth forecasts.

Heathrow has already committed to net zero and the robust planning process will require us to prove airport expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. It is clear that the industry needs to demonstrate tangible progress on delivering the industry net-zero roadmap in order to maintain political and public support for future growth.

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 video conferencing 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.

### 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 work with the industry to deliver its net-zero roadmap and demonstrate tangible progress on cutting emissions in the next decade.

Our role is to use our scale and influence to drive change. We have therefore sought to lead in campaigning for net-zero flight. 'Target Net-Zero', published in early 2020, sets out our plans for decarbonising flying and how we will transition our airport to zero carbon before 2050.

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

Currently SAF costs two to four times more than kerosene. The 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 the development of production. Building an industry at scale will also rapidly drive down SAF prices. That is why we want to see the Government act now with SAF mandates to scale up supply and price incentives to lower the cost of SAF.

Although decarbonising flight is the key enabler for growth, Heathrow is also tackling emissions on the ground. We are already carbon neutral for our buildings and infrastructure and are working towards zero carbon. We are also working with other airport companies to address the other sources of emissions on the ground - from vehicles and surface access to the airport.

We have identified where direct Heathrow investment can make a difference. In our next regulated settlement, as we recover from COVID-19, we plan to invest in high impact areas that deliver the biggest carbon savings for the lowest cost.

Our net-zero plan is covered in more detail in the 'Climate change' section on page 38, including a summary of the progress we have made in the last year.

### FINANCIAL MATERIALITY

Financial materiality: **High**

Potential financial impact: Passenger numbers are the key driver of revenue at Heathrow and long-term variations in passenger demand will impact future passenger charges.



## Technology

### WHAT IS THE RISK

The transition to Sustainable Aviation Fuel ('SAF') and the introduction of new aircraft designs and propulsion technologies require investment by Heathrow to gradually upgrade airport infrastructure, 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 industry's net-zero roadmap. Heathrow is actively promoting a rapid scale up and use 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 take the carbon out of long-haul flight by 2050. It also works for short-haul flight, though we are also likely to see the development of other propulsion technologies for shorter journeys, including electric and/or hydrogen. Enabling those is likely to require more substantial changes to our infrastructure and operations. As the airport implications of those technologies become clearer, Heathrow will consider what changes are necessary to accommodate those aircraft before they enter airline fleets. There is an opportunity for Heathrow to play a leading role in enabling the transition to zero-carbon aircraft. In 2018, we announced a financial incentive, promising that the first electric-hybrid aircraft will not have to pay our landing charges for an entire year when it is put into regular service at Heathrow.

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

### HOW WE ARE ADDRESSING THIS RISK

Our current assessment is there is not a need for any on-airport SAF infrastructure, but we continue to explore any implications for Heathrow investment.

Electric and/or hydrogen aircraft could be operating commercially from Heathrow from the early to mid-2030s and we are watching industry developments to understand if this could happen sooner. To prepare, we are building our understanding of the potential infrastructure implications for Heathrow. With Rolls-Royce, we are leading a consortium of aviation companies and academics which has been awarded funding from the Innovate UK "Future Flight" Programme to understand the implications for airport infrastructure from these new technologies. We will assess the findings from the research and consider it as part of our future planning.

### FINANCIAL MATERIALITY

Financial materiality: **Low**

Potential financial impact: The nature of our long-term capital programme means that investing in this transformational technology does not represent a significant increase in our long-term investment plans.



## Reputation

### WHAT IS THE RISK

Investors show a preference for airports that have smaller climate impacts increasing the cost of borrowing.

### HOW WILL THIS RISK AFFECT HEATHROW

Investors focus on the carbon performance of companies is growing and climate change is becoming a more important factor in investment decision-making. We benefit from access to a wide range of investment sources, and low borrowing rates, to invest in improving the airport whilst helping to keep our costs affordable. Not decarbonising quickly enough, particularly compared to our peers, could impact investor confidence and make Heathrow less attractive compared to other airports, pushing up borrowing costs and damaging our competitiveness.

### HOW WE ARE ADDRESSING THIS RISK

In 2019, the level of carbon emissions associated with running our airport infrastructure, the emissions we directly control, was 0.33kg per passenger. This is significantly lower than the European average of 1.5kg per passenger and we have one of the lowest emission levels among major European Hub airports.

Heathrow has committed to transparency and we will continue to assess and disclose our material climate change risks to investors and report our progress 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.

Our priority is to maintain our leadership position on climate change and help to transition the industry to net zero by 2050 whilst eliminating carbon at our airport. Our Target Net-Zero plan sets out our strategy.

In our Revised Business Plan to the regulator, covering the period from 2022 to 2026, we set out our plans for delivering Target Net Zero in this period. This includes action against each part of the plan with a focus on projects that deliver the biggest carbon savings.

### FINANCIAL MATERIALITY

Financial materiality: **Low**

Potential financial impact: It is not possible to easily calculate a financial impact in the event that the reputation risk is not mitigated.

# PHYSICAL RISKS



## Network

### Property and operations

#### WHAT IS THE RISK

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

#### HOW WILL THIS RISK AFFECT HEATHROW

The most significant physical climate impacts for airports globally are inundation from sea level rise and extreme temperatures that reduce aircraft lift and restrict take off. These are not material risks for Heathrow based on the airport's inland location and projected UK temperature rises in a 4°C climate scenario. Heathrow could expect to see some impact on our infrastructure and operations from an increase in flood risk from all sources 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 should continue to be assessed against an ongoing assessment of climate risks.

#### HOW WE ARE ADDRESSING THIS RISK

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

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

Newer infrastructure at Heathrow has already been designed to account for climate change based on or exceeding the relevant standards at the time of design and construction. The development of the airport over 70 years means that standards vary across the site.

In 2011, Heathrow published its first Climate Change Adaptation Report and Risk Assessment which is a requirement of the UK's Climate Change Act. The report and subsequent reviews assess the risks and opportunities climate change poses to Heathrow based on the latest climate science. It includes indirect impacts related to infrastructure and services on which Heathrow relies. The report sets out the actions we will take to address the risks identified. The next update will take place in 2021 and inform what additional steps we need to take based on our latest understanding of the risks.

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

#### FINANCIAL MATERIALITY

Financial materiality: **Medium**

Potential financial impact: The nature of our long-term capital programme means that investing in the necessary equipment and infrastructure does not represent a significant increase in our long-term investment plans. The increases in operating costs and reductions in revenue from extreme events are not material to the revenue or cost base of Heathrow.

#### 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. The effects of a 4°C rise in global temperatures could be catastrophic and therefore industry led research is a priority to further understand the materiality of this risk.

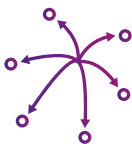
#### HOW WE ARE ADDRESSING THIS RISK

Heathrow will continue to monitor this risk and seek wider industry views, 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**

Potential financial impact: It is not possible to easily calculate a financial impact of variations to the Network in the event that 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 the route.

### HOW WILL THIS RISK AFFECT HEATHROW

The physical impacts of climate change may impact 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 e.g. snow cover for 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 climate effects and less able to mitigate those impacts.

Heathrow's hub model and our large and diverse route network reduces our exposure to this risk and our current network of destinations includes many large population and business centres that will remain important destinations and are likely better placed to invest in mitigation.

However, it is important to consider the broader impacts of 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.

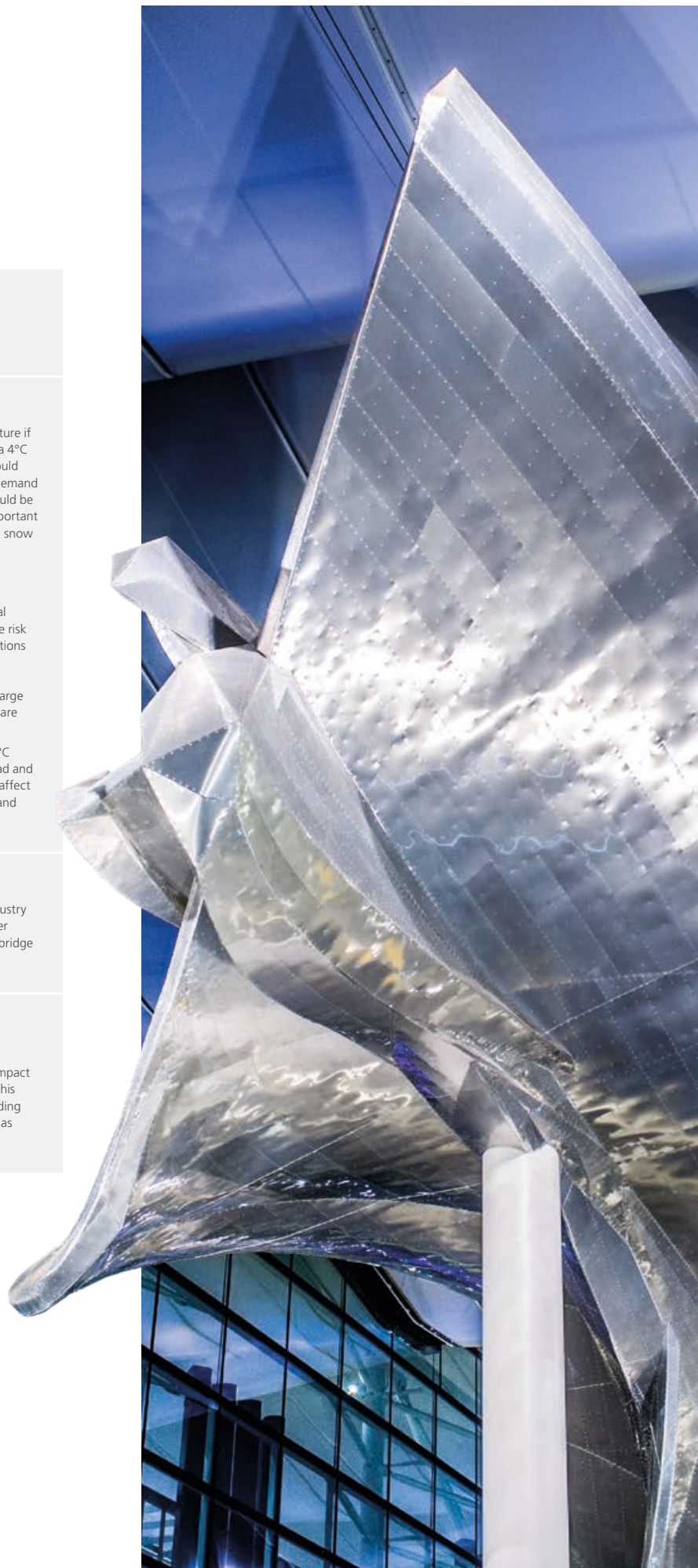
### HOW WE ARE ADDRESSING THIS RISK

Heathrow will continue to monitor this risk and where necessary support industry research to build our understanding of the potential impacts. We will consider what opportunity exists to consider this risk as part of research led by a Cambridge Institute of Sustainable Leadership Fellowship sponsored by Heathrow.

### FINANCIAL MATERIALITY

Financial materiality: **Medium**

Potential financial impact: It is not currently possible to calculate a financial impact of variations to passenger demand for certain destinations in the event that 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.



## 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 decision 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. We do this through the Executive Committee. The Executive Committee is responsible for the development of strategy, related policies and their execution. The Executive Committee then engages the Board of Heathrow Airport Holdings Limited (the 'HAHL Board') in approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the HAHL Board. We ensure that when we are applying these group policies we have due regard to our fiduciary duties and responsibilities. The Executive Committee 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 Heathrow Airport Limited includes three members of the HAHL Board and all the members of the Executive Committee, which enables the dissemination of core information about the business of the HAHL group.

There are also directors of Heathrow Airport Limited that attend the Audit Committee and Risk and Assurance Committee, which helps to provide foresight of the key principal risks affecting the HAHL group and specifically those affecting Heathrow Airport Limited.

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

The Company's key stakeholders are its passengers, communities and the environment, colleagues, airlines, investors, suppliers and commercial partners and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions for the HAHL Board's approval. While there are cases where the Executive Committee itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both our stakeholders and Heathrow Airport Limited means that generally our stakeholder engagement best takes place at the Heathrow Airport Limited (operational) or HAHL Group level with the Company's stakeholders, so as to encourage the directors to understand the issues to which they must have regard, please see the HAHL stakeholder table on the following pages.

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

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



## KEY DECISION MADE BY THE DIRECTORS OF THE COMPANY

Board Decision	Stakeholders	Considerations	Outcome
Capital Allocation	Investors Passengers Airlines	<p>Each quarter, the directors of the Company consider the Group's capital structure and capital allocation when proposing dividends. Details of our approach to capital allocation are set out on page 54 where we explain our long-term approach to allocating capital and the payment of dividends.</p> <p>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.</p>	The directors of the Company recommended a dividend payment to Heathrow (AH) Limited of £107 million in February 2020 reflecting the cumulative outperformance, before the significant impacts of COVID-19 on our industry were clear or anticipated. For the remainder of 2020, due to the impact of COVID-19, no further dividends have been recommended.
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 £80 million in issuance of senior notes in March 2020.

## KEY DECISIONS MADE BY THE HAML BOARD




Board Decision	Stakeholders	Considerations	Outcome
<p><b>Health, Safety and Wellbeing:</b> The HAML Board considered fire, health, safety and wellbeing issues at the start of every Board meeting. During the year, COVID-19 related matters have dominated health and safety discussions and the following issues were considered:</p> <ul style="list-style-type: none"> <li>• Heathrow's 'Safe to Fly' Programme: COVID-19 related controls to provide confidence to colleagues and passengers that it is safe to work and fly.</li> <li>• COVID testing for passengers and colleagues.</li> <li>• Strengthening of Heathrow's health and wellbeing support for colleagues during the COVID pandemic and the significant changes being experienced inside and outside of work.</li> <li>• Fire safety: current compliance and performance and preparations for the implementation of the new Fire Safety Bill.</li> </ul>	Colleagues Passengers Airlines Suppliers and Commercial Partners Regulator	<p>The HAML Board understood and acknowledged the significant changes, and supported the associated investment, required to ensure a COVID-19 secure environment for colleagues, passengers and Team Heathrow stakeholders.</p> <p>Decisions regarding COVID-19 requirements have been informed by Government guidelines, advice from Public Health England and the Health and Safety Executive and by Heathrow's assessment of risk.</p> <p>Decisions were made through established governance. Where required, additional COVID specific governance was put in place e.g. Safe to Fly Programme and Testing SteerCo. These fora involve senior leaders from across relevant business functions. Regular updates have been provided to the HAML Board.</p> <p>Airlines and other Team Heathrow organisations, including Border Force, have been informed and engaged regarding COVID controls at all levels of the respective organisations.</p> <p>Trade Unions were engaged in decisions on COVID-related policies and standards via established Trade Union and additional COVID-specific meetings, for example adjustments to the application of the Absence Policy so that colleagues are not penalised for COVID-related absence. Colleagues were directly engaged in trials, specifically testing and face coverings, their feedback informing the decisions made including the choice of face coverings.</p> <p>The HAML Board endorsed the establishment of arrivals testing facilities and capability, and a trial of rapid point of care tests. These projects were designed to inform Government thinking regarding the role of testing in enabling safe travel and the reduction of the 14-day quarantine, both considered critical to get passengers flying.</p> <p>The impact of the COVID-19 pandemic is multi-faceted, complex and unprecedented. The HAML Board acknowledged and offered their support for further enhancing Heathrow's health and wellbeing support for colleagues, in response to the internal and external challenges arising from COVID-19 and resultant changes at Heathrow.</p> <p>The HAML Board has overseen significant improvement in fire safety arrangements and performance over the last 5 years, and the extent to which Heathrow is sharing its best practice with other international airports. Consideration is now being given to implementing the requirements of the Fire Safety Bill.</p>	<p>The aviation sector is critical to the UK economy, and Heathrow is critical to the aviation sector. The controls endorsed by the HAML Board have enabled Heathrow to operate safely and stay open. This has enabled repatriation flights, the movement of critical cargo and enabled passengers to fly safely.</p> <p>In November the Government announced a reduction in its quarantine requirement, moving from 14 days quarantine on arrival to 5 days plus test and release. The HAML Board has ensured that facilities and services are in place to meet the anticipated demand at Heathrow. The reduction in the quarantine period is an important step towards the removal of quarantine and deemed critical to the recovery of the UK aviation industry.</p> <p>Heathrow's health and wellbeing support for colleagues has been strengthened by the provision of additional products and services such as financial wellbeing, advice and guidance on safe working from home and additional support for managers to deal with bereavement. This additional support will benefit colleagues and their families dealing with difficult issues and help maintain their resilience during challenging and changing times.</p> <p>Fire presents a significant risk to Heathrow's operations. Post Grenfell, work continues to ensure that Heathrow meets new legislative requirements.</p>

## KEY DECISIONS MADE BY THE HAHL BOARD (CONTINUED)

Board Decision	Stakeholders	Considerations	Outcome
<b>Business Protection</b>	Colleagues Investors Airlines Suppliers and Commercial Partners Communities and the environment Government	<p>The dramatic reduction in air passenger volumes as a result of the COVID-19 pandemic has resulted in a material reduction in Heathrow's revenue, where this was negligible in Q2 2020.</p> <p>The organisation moved at pace to materially reduce its cost base, reducing operating costs and capital expenditure, in order to maintain financial resilience and meet the conditions of a bond waiver granted by bondholders.</p> <p>Cost reduction has been focused on areas where there was less passenger volume related activity, including a consolidation of Terminals 3 and 4, contract renegotiation, expenditure categorised as non-essential and a reduction in employee headcount. No compromises have been made with regard to investment in safety and security, in order to ensure Heathrow is Safe to Fly, or that would impact the organisation's ability to respond to a recovery in the market.</p>	The business has delivered £303m of cost savings and reduced capital expenditure by £700m in 2020.
<b>People:</b> launching a collective and colleague consultation process to implement permanent changes to Terms and Conditions for colleagues in negotiated grades to remove outdated legacy arrangements and achieve a consistent market aligned approach to reward across Heathrow.	Colleagues Regulator Government Airlines Local Authorities Communities and the environment Investors	<p>The HAHL Board acknowledged that implementing permanent changes to salary and allowances, affecting the majority of colleagues at Heathrow, had a significant impact. Around half of those impacted had a reduction in pay, whilst the other half had no change or an increase to their pay.</p> <p>The unexpected and extensive drop in passenger travel, and therefore demand, meant that to secure the future of Heathrow, reducing costs on a permanent basis was essential, and implementing a sustainable cost per colleague, whilst ensuring a market competitive reward package to attract and retain talent was critical.</p> <p>By reducing the cost per colleague instead of implementing permanent headcount reductions through a redundancy programme, jobs were protected for all colleagues that wanted to remain at Heathrow. To achieve these changes a comprehensive 9-month collective consultation process with our three Trade Unions followed by an individual colleague consultation process was undertaken. Providing the choice to accept the new Terms and Conditions, with a buyout payment which protected pay for two years, or leaving under Voluntary Severance, ensured that every colleague was able to make the choice that best suited their individual circumstances.</p> <p>We were unable to reach collective agreement with our three Trade Unions, prior to moving to individual consultation. Two of our three Unions balloted for Industrial Action, with Unite achieving a mandate in 7 out of the 16 bargaining units balloted. Unite took strike action on three occasions during December 2020 with a further five dates planned in February 2021.</p> <p>In addition to the permanent changes to terms and conditions, working with our Trade Unions to agree temporary cost saving measures including a temporary pay reduction and the terms for using the Government Job Retention Scheme (furlough) enabled Heathrow to protect as many jobs as possible, which was essential for the livelihoods of colleagues and to support the recovery and long term success of Heathrow.</p>	<p>The outcome of the colleague consultation process was the implementation of new consistent market aligned salaries and allowances, with 364 colleagues choosing to leave on Voluntary Severance and all remaining 100% of the remainder 4,273 colleagues accepting the new terms and conditions.</p> <p>In implementing new market aligned salary ranges, Heathrow has maintained its commitment to the Living Wage Foundation, with all colleagues paid at or above London Living Wage.</p>
<b>Commercial Revenue and Growth</b>	Suppliers and Commercial Partners Regulator Government	<p>From a commercial revenue and growth perspective, the HAHL Board focused on protecting its aviation and retail business from the significant impact of the COVID-19 crisis and reduction in demand:</p> <p><b>Aviation</b> Since the COVID-19 crisis struck, our focus has been to win market share in what is a decreasing aviation market. We have also focused on increasing cargo only-flights in order to offset some of the declines in passenger revenues.</p> <p><b>Retail</b> Retail provides the largest element of non-aero income to Heathrow, bringing in 2019 circa £550m per annum from 350 units across the terminals, our media estate, VIP and Premium Services. The COVID-19 pandemic meant that our ability to generate non-aero income was significantly compromised. Heathrow has taken a case by case approach to the commercial challenges the airport and our concessionaires have faced in 2020. Whilst some retailers have remained open throughout others have been closed for periods or only been able to operate in limited ways such as take-away only or 'click and collect'. Our commercial position regarding concession contracts and minimum guarantees has varied to reflect these different market conditions within our wide retail estate.</p> <p>In parallel with these issues, we have also taken action to mitigate the effects of the Government's proposals to abolish airside tax-free sales for all passengers, the so called 'Tourist Tax', including being lead Claimant with Dufry and Global Blue in Judicial Review proceedings.</p>	<p>As a result of these measures we continue to win a greater share of both the long-haul and short-haul markets and our cargo business has significantly increased during the year.</p> <p>The effects of these changes have reduced the likelihood of our retail concessionaires terminating contracts and increased the attractiveness of Heathrow for future tenders / business partnering.</p>

Board Decision	Stakeholders	Considerations	Outcome
<p><b>Regulation:</b> Developing Heathrow's proposed business plan for H7.</p>	<p>Investors Airlines Regulator</p>	<p>As part of the CAA's process for economic regulation Heathrow was required to develop a Revised Business Plan ('RBP') for H7, the next regulatory period due to commence at the start of 2022. This was an update from the 'Initial Business Plan' submitted in December 2019, and the 'Building Block Update' submitted in July 2020.</p> <p>The development of the RBP took place over five months, from August to December 2020. The HAHL Board had to consider the impact of the Court of Appeal decision on Heathrow Expansion and the COVID-19 pandemic, which had material impacts on Heathrow and a diverse range of airport stakeholders.</p> <p>The HAHL Board had to carefully consider how to balance the different and competing requirements of stakeholders in light of the change in focus to a two-runway airport and the significant financial constraints caused by COVID-19.</p> <p>Stakeholder engagement was extensive, including airlines (based on the CAA's 'Constructive Engagement' process); consumers (through a series of consumer research projects); and other stakeholders (through existing engagement forums). The insight gained from this activity formed a key input to the development of the plan.</p>	<p>The outcome of the process was approval of Heathrow's RBP at the HAHL Board meeting on 16 December 2020.</p> <p>Following final assurance checks the RBP was submitted to the CAA (and shared with airlines under NDA) on 18 December 2020.</p> <p>A summary of the RBP was made publicly available on the Heathrow website on 22 December 2020.</p> <p>Chapter 10.1 – "Outcomes: Conclusions" of the RBP summarises the outcome of our proposed plans for consumers and demonstrates how Heathrow has appropriately taken into account the interests of other airport stakeholders. Further detail is contained in other chapters of the RBP.</p>
<p><b>Regulation:</b> Request to the CAA for a COVID-related RAB Adjustment.</p>	<p>Passengers Airlines Regulator Colleagues Suppliers</p>	<p>The COVID-19 pandemic has had a catastrophic financial impact on the aviation industry, including Heathrow, and the HAHL Board had to take rapid action to reduce costs (detailed above) and protect the business. The licence for Q6 granted by the CAA contained a provision for an adjustment of the Q6 settlement in the event of extreme circumstances.</p> <p>The HAHL Board decided that it was necessary to request an adjustment in order to recover some of the lost revenues and mitigate some of the impact of the pandemic. This would help protect investors and consumers from the need for further reductions in investment that would be hard to reverse and could have long-term consequences, and help to reduce the risk of further credit-rating downgrades that would increase the cost of future investment.</p> <p>Analysis was undertaken and evidence prepared to support the submission. After careful consideration the HAHL Board approved the submission and it was submitted to the CAA in July 2020.</p>	<p>The CAA launched an initial consultation on Heathrow's proposal in October 2020, and a second consultation in February 2021.</p> <p>A response to the second CAA consultation is currently being prepared; this will be reviewed by the HAHL Board before responding in early March 2021.</p>
<p><b>Plan to reopen Borders/ Testing</b></p>	<p>Passengers Airlines Government Testing Partners Colleagues International Airports</p>	<p>The HAHL Board recognised that the impacts of the COVID-19 pandemic had led to a severe reduction in demand due to (i) loss of passenger confidence in the biosecurity/safety of air travel and (ii) border closures which effectively grounded planes on some routes. In order to increase passenger confidence through testing and work with global states to reopen borders, the HAHL Board endorsed the strategic plan which would deliver greater passenger numbers and consequently increase revenue to protect the business. The health and safety of passengers and colleagues was a key priority under the plan.</p> <p>Due to the global nature of the COVID-19 pandemic, Heathrow could not work on the plan in isolation and joined forces with airlines to pilot testing schemes to provide evidence to government to support a risk based approach to travel.</p> <p>Heathrow's status and global reach led it to engage with stakeholders across the aviation industry, coordinating Government advocacy with airlines, airports and business groups, through the Department for Transport's Expert Steering Group whilst calling for greater Government involvement in such a key national issue.</p> <p>In support of advocacy and influencing approach, Heathrow had to work closely to form partnerships with testing partners to operationally deliver testing facilities for passengers in response to other states' entry requirements – enabling more passenger take up of flights. As a result of delivering testing facilities, our colleagues and local communities have been able to use the sites themselves, demonstrating Heathrow's leadership and commitment to safety in the area.</p>	<p>Test to Release policy announced by Government.</p> <p>Global Travel Taskforce set up by Government to fast-track recommendations on testing and reopening borders.</p> <p>Pre-departures trials with Heathrow airlines agreed.</p> <p>Testing facilities at Heathrow, pre-departures facility in Terminals 2 and 5.</p> <p>Drive through testing facility in our N4 car park (open to colleagues and local communities).</p>

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.

PRINCIPAL RISK	Passengers	Communities and the environment	Colleagues
<b>WHY WE ENGAGE</b>	Understanding our passengers' changing needs and behaviours helps us to achieve our vision to give passengers the best airport service in the world.	Working with communities at local, regional and national levels enables us to deliver on the objectives of Heathrow 2.0, our sustainability leadership plan.	We will only deliver our vision if we recruit and retain the best people and develop a flexible, motivated, efficient, diverse and engaged team. Engaged employees deliver excellent service.
<b>HOW WE ENGAGE</b>	<p>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.</p> <p>We use consumer research groups to engage and shape the key decisions we make. Horizon is an online community of Heathrow users which can be used when making real time decisions.</p> <p>We use social media, our website, the Official Heathrow traveller blog, email communications and the Heathrow App to communicate directly with our passengers.</p> <p>The Consumer Challenge Board ('CCB'). The CCB help shape our passenger engagement strategy by providing independent challenge on the use of our passenger research and engagement in our business planning.</p>	<p>Heathrow Strategic Planning Group represents many of the local authorities and other public organisations responsible for planning the land use, transport, environment, economic development and sustainable development of the sub-region surrounding Heathrow. It works proactively to shape proposals for expansion of the airport to ensure these are sustainably planned, maximise the benefits and minimise the impacts felt across the area.</p> <p>Local Focus Forum is a quarterly meeting that we host, made up of resident associations and local councillors from the villages bordering Heathrow, where we share information about pending developments and operational impacts that might affect the local area and give residents the opportunity to raise queries of concerns.</p> <p>Heathrow Community Noise Forum is a group made up of local councillors and residents from 12 boroughs around Heathrow affected by noise from the airport. It seeks members' inputs in the planning and communication of the modernisation of Heathrow's airspace.</p> <p>Heathrow Community Engagement Board is an independent body that has been established to give those who live, work and travel through Heathrow more influence over how the airport operates today and how it may grow in the future.</p> <p>Charity partnership with CARE International UK; The Duke of Edinburgh's Award programme; Heathrow Community Trust.</p> <p>The Heathrow Local Recovery Forum, chaired by Lord David Blunkett, was set up in 2020 to collaborate with stakeholders on local economic recovery and growth post-pandemic. It brings together local councils, enterprise partnerships, education providers, business groups and chambers of commerce to drive forward recommendations to protect the future security of the economies and communities who rely on Heathrow with an initial focus on skills and employment, supply chain opportunities, local transport and green recovery.</p> <p>We also use social media, our website, the Official Heathrow traveller blog, email communications and the Heathrow App to communicate directly with our communities. Further information can also be found at <a href="https://www.heathrowexpansion.com/local-community">https://www.heathrowexpansion.com/local-community</a>.</p> <p>Further information on our engagement on the environment can be found in the sustainability section of this report from pages 31 to 45 and at <a href="https://www.heathrow.com/company/community-and-environment/heathrow-2-0/reports-and-further-reading">https://www.heathrow.com/company/community-and-environment/heathrow-2-0/reports-and-further-reading</a>.</p>	<p>The Colleague Engagement Forum allows colleagues from across the business at all levels to have their say and help make Heathrow a great place to work.</p> <p>The People Leadership Forum works with partners to create an agile, diverse, inclusive and skilled workforce that has access to quality careers, employment and training opportunities.</p> <p>Employee InPulse surveys help measure progress made with our engagement plans and make sure we're moving in the right direction.</p> <p>Our diversity networks help us promote an inclusive culture through events, fundraising and awareness campaigns. They include: Proud, our LGBT+ network; HAND, Heathrow Airport's Network for Disability; en-haNCE our culture and ethnicity network; and Altitude, our gender equality network.</p> <p>Heathrow Skills Taskforce advises us on the skills and training programmes we need to make Heathrow's expansion a success.</p> <p>We monitor Colleague safety through KPI reporting and take action to continuously improve the safety of our working environment.</p> <p>Heathrow has regular team updates, and briefings, the HUB intranet portal includes a CEO blog and other communications.</p> <p>We have a regular process to collect feedback on how colleagues feel working at Heathrow. This is reported on a monthly basis. In addition to this we have a community app called Buzz, which we use to send information to colleagues and respond to questions. Heathrow also has joint forums with its recognised trade unions on matters such as financial results and business performance.</p>
<b>LINK TO STRATEGIC PRIORITIES</b>			

Investors	Airlines	Suppliers and Commercial Partners	Regulator
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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.

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.

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 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.

Shareholders controlling 10 per cent or more of the issued ordinary shares of FGP Topco Limited are entitled to appoint one Non-Executive Shareholder Director to the HAML Board for every 10 per cent held.

We provide quarterly financial updates, semi-annual investor reports and debt investor presentations.

We provide an annual report and accounts, which include optional enhanced disclosures.

We perform investor roadshows and make prospectus documents available.

We have ongoing dialogue with current and potential investors.

We liaise with credit rating agencies to ensure we understand the impact of our strategic decisions on their assessment.

We provide ESG reporting which integrates Heathrow 2.0 KPIs into our future financing plans.

Further information can be found at our Heathrow corporate website <https://www.heathrow.com/company/investor-centre>.

Heathrow Leadership Group works collaboratively through a Joint Steering Board to improve the end-to-end passenger experience at Heathrow. The group comprises the Chief Executives of Heathrow Airport, British Airways, Virgin Atlantic, NATS and the CAA. It meets quarterly under the Chairmanship of Heathrow's CEO.

We engage formally with airlines throughout the year on key areas including: operational and passenger experience, the expansion of Heathrow and pricing and governance around capital spend. This is augmented with further bespoke engagement on a range of issues as an airline or as an airport community as is necessary.

Quarterly joint executive meetings take place with customers.

The CEO regularly visits major current and potential international airlines.

The Working Together Charter is a foundation for building better relationships between Heathrow and our Suppliers with the purpose to support Heathrow and Supplier colleagues to work together and fulfil our vision to give passengers the best airport service in the world.

Team Heathrow Annual Conference has become the premier gathering for our top strategic supply chain partners and procurement professionals. This event allows us to showcase our success stories, network with peers and develop strategic partnerships.

Heathrow Business Summits give participants the chance to meet and collaborate with Heathrow's key suppliers, regional SMEs, fellow Team Heathrow colleagues and retail partners across Heathrow.

The Heathrow Sustainability Partnership is a group of companies representing all sectors at the airport all working hard to improve Heathrow's sustainability performance.

The Clean Vehicles Partnership works with companies at Heathrow to reduce emissions from their fleet operations.

We meet regularly with the CAA to discuss all issues relating to the regulated elements of Heathrow.

We respond to various CAA publications related to the economic regulation of the airport. This includes regulatory price control reviews and Expansion-related matters.

As part of our licence we are required to publish various regulatory documents.

Regulatory reporting through the Annual Regulatory Accounts.



## SECTION 02

# GOVERNANCE REPORT

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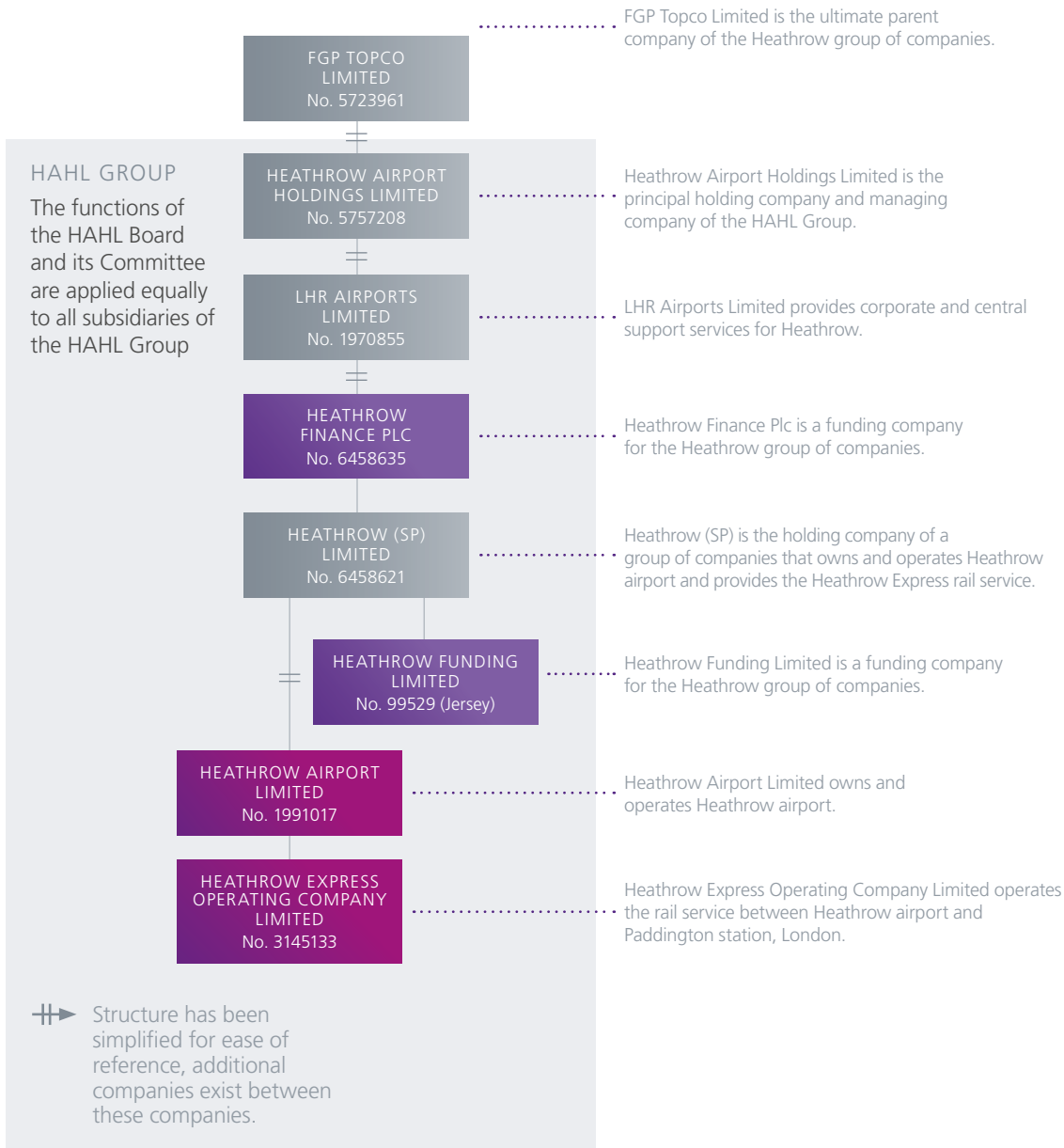
# GROUP STRUCTURE

Heathrow Airport Limited (the 'Company') is an indirect subsidiary of Heathrow Airport Holdings Limited. The Company's financial activities are aligned with Heathrow Airport Holdings Limited and the wider Heathrow Airport Holdings Limited Group (the 'HAHL Group') and also with the Heathrow (SP) Limited Group, which is the intermediate parent undertaking of the smallest group to consolidate these financial statements.

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

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

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





## OUR OWNERS

The HAHL Group is owned by a consortium of investors (the 'Shareholders') who hold shares in FGP Topco Limited. Details of the Shareholders' equity interests, as at 31 December 2020, are shown in the table to the right:

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

### Shareholders' Agreement

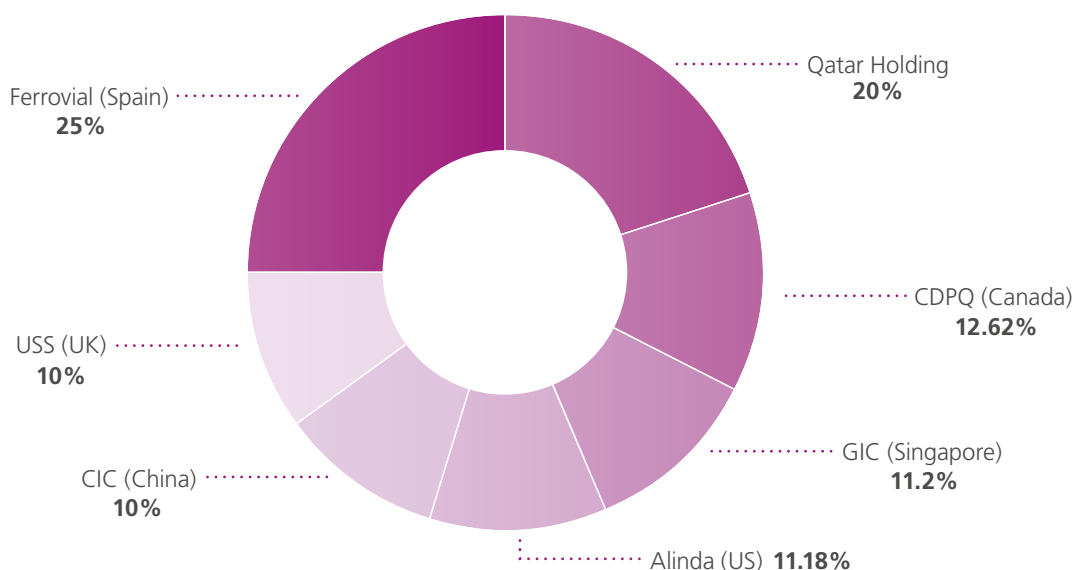
All the Shareholders are party to a Shareholders' Agreement which determines certain governance procedures in the HAHL Group. Under the terms of the Shareholders' Agreement, each Shareholder, controlling 10 per cent or more of the issued ordinary shares of FGP Topco Limited, is entitled to appoint one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

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

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

The CTA restricts amendments to the Articles of Association of the companies in the Group without obtaining prior consent from the Security Trustee.

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



# HAHL BOARD OF DIRECTORS

## HAHL BOARD OF DIRECTORS

### CHAIRMAN, EXECUTIVE DIRECTORS, COMPANY SECRETARY



LORD PAUL DEIGHTON  
**CHAIRMAN** Appointed June 2016

N

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



JOHN HOLLAND-KAYE  
**CHIEF EXECUTIVE OFFICER** Appointed July 2014

F S

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



JAVIER ECHAVE  
**CHIEF FINANCIAL OFFICER** Appointed November 2016

F

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



CAROL HUI  
**CHIEF OF STAFF AND GENERAL COUNSEL** Appointed Company Secretary April 2009

Carol joined Heathrow in 2009 and is the Chief of Staff and General Counsel, responsible for legal affairs, business assurance, and external and internal communications. Her remit has included communities, sustainability and the environment and she is on the board of Heathrow Communities Trust. Carol was the Executive leading Heathrow to win the Airports Commission endorsement in 2015 and she led on Heathrow's latest win in December 2020 at the Supreme Court. Carol has extensive senior executive experience in transport, oil and gas and infrastructure industries and was a corporate finance lawyer at Slaughter and May. She has received numerous business and legal awards in her career such as from The Financial Times, The Lawyer, Sinopro and PwC and is on the GC Legal 500 Powerlist and the Women to Watch in Hospitality Travel and Leisure Index. Carol is a seasoned independent non-executive director and chairman on external boards.

## HAHL BOARD OF DIRECTORS

### INDEPENDENT NON-EXECUTIVE DIRECTORS



PROFESSOR DAVID BEGG

**INDEPENDENT NON-EXECUTIVE DIRECTOR** Appointed November 2010

S

David has extensive expertise in the transport sector. He is Chief Executive of Transport Times and a member of the Prime Minister's Union Connectivity Task force, a member of the Thales Strategic Advisory Board and Chairman of Greener Journeys which produces research and campaigns to promote sustainable travel and tackle climate change. He is also a visiting professor in sustainable transport at Plymouth University. Formerly he was Professor of Sustainable Transport at Robert Gordon University, Non-Executive Board Member of FirstGroup, Chairman of the Northern Way Transport Compact, Chairman of the British Chamber of Commerce Infrastructure Commission, a member of the High Speed Rail 2 External Challenge Group, Advisor to the Greater Manchester Transport Executive, Chairman of the Commission for Integrated Transport, an independent advisory board to the Government, and Chairman of Tube Lines, the company responsible for maintenance and upgrade work on three London Underground lines.



RT. HON RUTH KELLY

**INDEPENDENT NON-EXECUTIVE DIRECTOR** Appointed April 2019

A F

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

#### COMMITTEE KEY



Committee chair



Audit committee



Nominations committee



Finance committee



Sustainability and Operations Risk committee



Remuneration committee

## HAHL BOARD OF DIRECTORS NON-EXECUTIVE SHAREHOLDER DIRECTORS



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

(A) (N) (F) (S)

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



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

(F) (R)

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



STUART BALDWIN  
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed April 2006

(N) (F) (R)

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



CHRIS BEALE  
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed October 2011

(F)

Chris is the Managing Partner of Alinda Capital Partners, an independent investment firm with over \$7.4 billion in equity commitments to infrastructure investments. Alinda's investors are predominantly pension funds for public-sector and private-sector employees. Prior to founding Alinda in 2005, he led the world's largest infrastructure finance business as global head of project finance at Citigroup. He was also global head of project finance at Morgan Stanley and Credit Suisse First Boston.  
**Alternate:** Sam Coxe (appointed November 2012).



MARIA CASERO  
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed January 2019

Maria is International Asset Management, People and Communications for Ferrovial Airports and Ferrovial Power Infrastructure. She is a member of the Ferrovial Group Sustainability Steering Committee and represents Ferrovial Airports as World Business partner member of ACI EUROPE Environmental Strategy 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 professional career as an Accounting Manager at American Airlines. **Alternates:** Gonzalo Velasco Zabalza (appointed February 2017), Ignacio Aitor Garcia Bilbao (appointed January 2020 and resigned February 2020), Ignacio Madridejos Fernández (appointed January 2020) and Ignacio Castejon Hernandez (appointed March 2020).



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. He was seconded in October 2020 to Eurostar International Limited as Managing Director in charge of the COVID-19 related cost saving programme. 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 sits on the supervisory board of Budapest Airport. Olivier was appointed as the HAHL Board's Climate Change Director on 27 January 2021.



JORGE GIL

**NON-EXECUTIVE SHAREHOLDER DIRECTOR** Appointed December 2012



Jorge is the Chief Executive Officer Ferrovial Aeropuertos. Jorge joined the Ferrovial group in 2001, as the Structured Finance Director (until 2007) and then became the Corporate and Business Development Director (2007-2010) of Cintra. He was a member of the Executive Committee of Cintra and a board member of various companies (407-ETR, Chicago Skyway, Indiana Toll Road and SH-130). In November 2010 he joined the financial department of Ferrovial as Capital Markets and Finance Director of Ferrovial, with responsibility for the financing and treasury of the Group and for the Investor Relations Department. Jorge began his career in the banking industry at The Chase Manhattan Bank in Spain, working in Corporate Finance and M&A. **Alternates:** Ignacio Aitor Garcia Bilbao (appointed March 2013 and resigned February 2020), Gonzalo Velasco Zabalza and Ignacio Madridejos Fernández (appointed January 2020) and Ignacio Castejon Hernandez (appointed March 2020).



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 chairs the audit committee of Aegon Spain and is a member of its board of directors.

**Alternates:** Ignacio Aitor Garcia Bilbao (appointed March 2013 and resigned February 2020); Ignacio Madridejos Fernández and Gonzalo Velasco Zabalza (appointed January 2020), Ignacio Castejon Hernandez (appointed March 2020).



MIKE POWELL

**NON-EXECUTIVE SHAREHOLDER DIRECTOR** Appointed November 2014



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



DAVID XIE

**NON-EXECUTIVE SHAREHOLDER DIRECTOR** Appointed September 2018



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

# EXECUTIVE COMMITTEE



JOHN HOLLAND-KAYE  
CHIEF EXECUTIVE OFFICER



JAVIER ECHAVE  
CHIEF FINANCIAL OFFICER



CAROL HUI  
CHIEF OF STAFF AND  
GENERAL COUNSEL

For biographical details see page 82.



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.



CHRIS GARTON  
EXECUTIVE DIRECTOR SOLUTIONS

Chris was appointed as Executive Director Solutions in April 2020. Prior to this, he was Chief Operating Officer at Heathrow. Before that, Chris held the equivalent role at Dubai Airport, where he played a key role in growing the annual number of passengers over a nine-year period. His most recent role was Director of Asset Management with Associated British Ports and during his career, Chris has also held a number of positions in engineering and change management at Gatwick Airport, Ineos and ICI. He has a first-class degree in engineering from London's Imperial College.



EMMA GILTHORPE  
CHIEF OPERATING OFFICER

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



ANDREW MACMILLAN  
CHIEF CARBON AND STRATEGY OFFICER

Andrew was appointed Chief Carbon and Strategy Officer in March 2020. Prior to that, he had been Chief Strategy Officer at Heathrow since January 2017. He is responsible for company strategy, forecasting, economic regulation, consumer insight, sustainability, communities and our carbon agenda. He has been at Heathrow for over a decade working in commercial, operational, and regulatory roles, including leading Heathrow through the Airports Commission. He is a non-executive trustee of the BAA Pension Fund and a member of the London Council for the Confederation of British Industry. Prior to Heathrow, he was with McKinsey and Company based in London and Tokyo, working on infrastructure, logistics and organisational transformation and mergers in Europe, the Middle East and Asia.



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.

## CHAIRMAN'S INTRODUCTION



As a Board, we have focused on taking the appropriate steps to successfully guide Heathrow through this period of uncertainty.



### LORD PAUL DEIGHTON CHAIRMAN

I am pleased to introduce this report, which describes the activities of the Board during the year, along with Heathrow's governance arrangements. Heathrow's purpose is to give passengers the best airport service in the world. For a significant part of the year air travel has been heavily affected by the unprecedented impact of the COVID-19 pandemic. The Board has focused on taking the appropriate action to successfully guide Heathrow through this period of uncertainty and to ensure it is well positioned for the recovery. During this period the safety and wellbeing of passengers and colleagues has remained paramount and the Board has focused on ensuring that the airport is able to operate safely and stay open. Our robust governance framework has helped to support this work.

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

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

For the year ended 31 December 2020, under the Companies (Miscellaneous Reporting) Regulations 2018, the HAHL Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ('FRC') in December 2018.

The Wates Principles provide a framework for the HAHL Board to monitor corporate governance of the HAHL Group and see where governance standards can be raised to a higher level across the business. We believe this, in turn, will result in better engagement with our stakeholder base and ultimately build trust with our passengers, colleagues and investors. Governance processes are cascaded down from the HAHL Board to other companies in the HAHL Group, including the directors of Heathrow Airport 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 2021, the HAHL Board will continue to review and challenge how the HAHL Group can continue to improve its corporate governance.



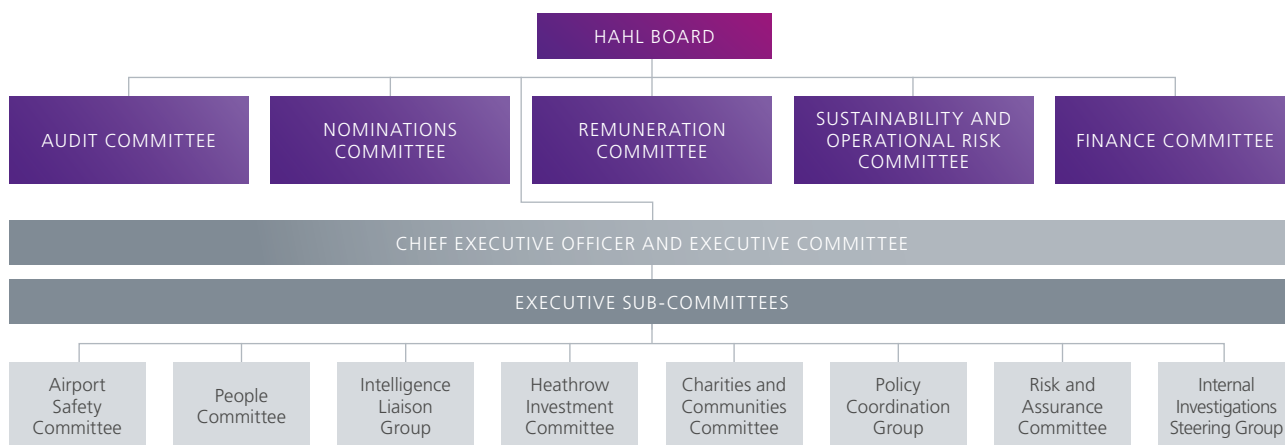
Principle	Summary	Page
<b>Purpose and leadership</b>	The HAHL Board is responsible for the long-term strategy, direction and performance of the HAHL Group. Our vision is to give passengers the best airport service in the world and to ensure that our values, strategy and culture are aligned with that 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.	24, 72, 80
<b>Board composition</b>	The HAHL Board consists of the Chairman, CEO, CFO, two Independent Non-Executive Directors and ten Shareholder Non-Executive Directors. The Independent Non-Executive Directors bring outside experience and provide constructive challenge and influence. The composition of the HAHL Board is partly determined by the Shareholders' Agreement and it is considered to be in the best interests of the HAHL Group for the senior executives and each Shareholder to be represented at meetings. The HAHL Board is committed to improving its diversity in terms of gender, ethnicity, disability and age and, its Nominations Committee is responsible for reviewing diversity and succession planning. 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 95.	92, 93, 95
<b>Directors' responsibilities</b>	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, 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 also have access to the Shareholders' Agreement, Heathrow's Group policies and other governance processes.	90-92
<b>Opportunity and risk</b>	The HAHL Board seeks out opportunity while mitigating risk. Long-term strategic opportunities are highlighted in the annual Business Plan process presented to the HAHL Board. The HAHL Board has overall responsibility for risk management and ensuring that an effective risk management process is in place. The Risk and Assurance Committee and the Executive Committee ensure that inherent and emerging risks are identified and managed appropriately and in a timely manner, updating the risk register for any changes in underlying conditions. Operational and safety risks are regularly reviewed by the Sustainability and Operational Risk Committee and financial risks by the Audit Committee.	58, 98, 108
<b>Remuneration</b>	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.	102
<b>Stakeholder relationships and engagement</b>	Central to our strategic framework, shown on page 26, are our high-level aspirations for the future of Heathrow for all our stakeholder groups. Our strategic priorities and values are how we deliver our vision. They reflect a simple business logic: engaged people deliver excellent service, which in turn delivers financial returns and growth in a sustainable way. The table within the section 172 (1) statement on pages 60 and 67 provides details of our main stakeholders and some of the engagement that takes place with them at an operational or HAHL Group level.	24, 76

# GOVERNANCE STRUCTURE

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

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

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



The HAHL Board receives regular reports on business and financial performance, employee issues and management of key business risks. The Chairmen of the Audit Committee and the Sustainability and Operational Risk Committee provide regular updates on matters discussed at those committees. Decisions from the Remuneration Committee are shared with the HAHL Board. The Finance Committee submits an annual update of its activity to the HAHL Board. Minutes from the Audit Committee, Sustainability and Operational Risk Committee and Finance Committee are shared with the Board on a regular basis. 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 Shareholder Working Group sessions to receive more in-depth information about specific aspects of the business.

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 86.

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

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

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

## EXECUTIVE SUB-COMMITTEES

### AIRPORT SAFETY COMMITTEE

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

### PEOPLE COMMITTEE

Responsible for reviewing strategy in relation to people issues, including reviewing benefit schemes, living wage, gender pay-gap reporting and other people-related matters. It is chaired by the Chief People Officer. Other members are the Chief Financial Officer and Chief of Staff and General Counsel. Other invitees include the Reward Director, Finance Director, Head of People and others.

### INTELLIGENCE LIAISON GROUP

Responsible for providing a secure forum to safely share secret, sensitive and often time-critical security intelligence. It is chaired by the Director of Security. Other members consist of the Chief Executive Officer, Chief Operations Officer, Chief of Staff and General Counsel, Executive Director Solutions, Head of Security Intelligence and Risk and Security Risk Manager. 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 Operations Officer, Chief Commercial Officer, Chief Carbon and Strategy Officer, Executive Director Solutions and Director of Engineering and Baggage.

### 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 General Counsel. Other members consist of the Chief Financial Officer, Chief People Officer and Director of Communities.

### POLICY COORDINATION GROUP

A strategic, senior-policy forum that provides advice and recommendations on Heathrow's policy priorities and positions to the Executive Committee and HAHL Board, where necessary, and oversees the implementation of engagement plans. Chaired by the Chief of Staff and General Counsel. Other members are the Director of Communications, Director of Carbon Strategy, Director of Treasury and Corporate Finance, Director of Finance Business Partnering, Process Improvement Director, Director of Services, Head of Network and Engagement Transformation, Aviation Director, Engagement and Business Partnering Director and Head of External Communications.

### 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 Chief of Staff and General Counsel. Other members consist of the Chief Financial Officer and the Chief Carbon and Strategy Officer.

### 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 Chief of Staff and General Counsel. Other members consist of the People Director, Head of Security Intelligence and Risk, Director of Business Assurance, Deputy General Counsel, Head of Legal, Compliance and DPO, Employee Relations Manager, Engagement and Business Partnering Director and a designated independent Non-Executive Director.

## CORPORATE GOVERNANCE

# ROLES AND RESPONSIBILITIES

It is the H AHL 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 H AHL Board are set out below.

### CHAIRMAN

The Chairman is responsible for:

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

### CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is responsible for the leadership and day-to-day management of the H AHL 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 H AHL Group and supporting the Chief Executive Officer in developing and implementing strategy.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent Non-Executive Directors are responsible for providing constructive challenge and bringing independence to the H AHL 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 H AHL Group's business.
- Assessing risk and the integrity of the financial information and controls.

### NON-EXECUTIVE SHAREHOLDER DIRECTORS

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

### COMPANY SECRETARY

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

## CORPORATE GOVERNANCE

## COMPOSITION OF THE H AHL BOARD AND ITS COMMITTEES

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



The names and biographies of all directors of the H AHL Board are published on pages 82 to 85. Nine of the Non-Executive Shareholder Directors have formally approved alternates, who are also listed. The alternates are statutory directors of H AHL, 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 H AHL Board and have collective responsibility for the H AHL Group's strategy and performance. Each H AHL Board Director has a clear understanding of their accountability and responsibilities.

Recommendations for the appointment of directors to the H AHL Board are made by the Nominations Committee. Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience and gender). 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, sustainability, climate change, government and finance, and provide constructive challenge and influence from outside the H AHL Group. The Chairman holds periodic meetings with all the Non-Executive Directors to discuss the performance of management and the H AHL Board, without the Executive Directors present.

The H AHL Board considered the Chairman, Lord Paul Deighton, to be independent in judgment and character on his appointment on 22 June 2016. Rachel Lomax resigned as an Independent Non-Executive Director on 23 February 2020.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the H AHL 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 H AHL 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 H AHL Board is partly determined by the Shareholders' Agreement, which provides that each Shareholder controlling ten per cent or more of the issued ordinary shares of FGP Topco Limited, is entitled to appoint one director to the H AHL Board. It is considered to be in the interests of the H AHL Group for each Shareholder to be represented on the H AHL Board. In addition, there are three independent Non-Executive Directors whose purpose is to challenge and provide external expertise. The H AHL 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 H AHL Board unwieldy and unduly costly.

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

## CORPORATE GOVERNANCE

# 2020 HAML BOARD ACTIVITIES

The HAML Board held eleven scheduled monthly meetings during the year ended 31 December 2020. To co-ordinate the Group's response to the COVID-19 pandemic, the Board held additional meetings and met remotely and on at least a weekly basis during the months of May, June and July, in order to monitor the developing situation. Board members also attended monthly Shareholder Working Group meetings and a joint strategy session was held in conjunction with the Executive Committee in October. During the year the HAML Board focused on a number of areas as set out below.

### 2020 HAML Board Activities

#### SAFETY

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

#### STRATEGY AND OPERATIONAL

- COVID-19 and Business Protection Plan.
- Passenger demand and growth strategy.
- Considered operational and business performance.
- Received updates on material communications with regulators and considered the impact of changes in regulation and developing regulation.
- Airport Expansion demobilisation.
- Judicial review of the Court of Appeal decision on Expansion-related decision.
- Industrial relations.
- People Plan and Trade Unions.
- Commercial strategy, including retail and aero charges.
- Brexit Contingency planning.
- Carbon Strategy.

#### FINANCIAL PERFORMANCE

- Protect and monitor liquidity.
- Reviewed financial performance and forecasts.
- Considered and approved the 2020/21 budget.
- Reviewed and approved results announcements.
- Raise £2.2bn financing and seek creditors consent to waive financial covenants.
- Approved the payment of the Q1 interim dividend.

#### 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 2019 annual report and accounts.
- Considered improvements to existing corporate governance arrangements, including additional reporting requirements and the Wates Principles.
- Considered output from the HAML Board evaluation process.
- Considered and agreed key risks and their mitigation and control.
- Agreed Modern Slavery Act Statement.
- Approved 2020 Continuity of Service Plan.

## CORPORATE GOVERNANCE

## 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 also receives regular and timely information (at least monthly) on all key aspects of the business, including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability, all supported by key performance indicators. During the COVID-19 pandemic the Board received regular updates on the passenger demand forecast and also in relation to the People Plan and Trade Union activity.

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. Financial information is externally audited by PricewaterhouseCoopers LLP on an annual basis, and financial controls are reviewed by the Group's internal audit function.

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

**Board Evaluation**

The HAHL Board considers the regular review of its function, Committees and Directors to be an essential element of good corporate governance and important for identifying key areas of focus for future improvement and for strengthening its overall performance. Internal evaluation assessments were carried out in November 2019 and November 2020. The reviews were conducted by questionnaire, which sought the Directors' feedback on all aspects of Board and Committee performance, including board composition, behaviours and dynamics, the number and length of meetings, agendas, the quality of information, the Chairman's leadership and focus, strategic oversight, interaction between the Board and its committees, overview of risk, succession planning, induction and training and priorities for change. The results were collated by the Company Secretary and anonymised before being discussed with the Chairman and the Board for consideration and recommendations, with follow-up actions debated and adopted as appropriate.

**2019 Internal Evaluation**

As reported in the 2019 Annual Report, an internal evaluation was undertaken during November 2019. The results were positive overall, with the appointments of Maria Casero and Ruth Kelly as new Board members being highlighted as progress in terms of gender diversity. The key areas identified for increased focus and development during the 2020 financial year are set out below:

**Areas of Focus Identified**

1. To further improve diversity and the skills mix on the HAML Board.
2. To further improve risk management reporting.

**Actions Taken**

1. The Nominations Committee has continued to look for further opportunities to increase diversity in searches for independent non-executive directors. Each shareholder group have been asked to have regard to the issue of diversity when succession planning for their respective director representatives on the HAML Board.
2. The Head of Risk Management and the Risk and Assurance Committee analysed and consolidated principal risks and undertook an in-depth review of accountabilities and responsibilities to create a fully consolidated risk register.

**2020 Internal Evaluation**

An internal evaluation was undertaken during November 2020. The results were positive overall and reflected the fact that the Board's activities during the year had been dominated by the challenges presented by the COVID-19 pandemic. The Board noted that generally the transition to remote meetings had worked well. Also, that despite the increased volume of information resulting from the COVID-19 pandemic, the high quality of papers prepared by management had been maintained. The Board acknowledged that it would need to focus on the right strategies to ensure that the business was well placed to deliver a strong recovery post pandemic. The key areas identified for increased focus and development during the 2021 financial year are set out below:

**Areas of Focus Identified**

1. Committee chairs to further improve reporting on their committees' activities to the HAML Board, including reviewing their Terms of Reference.
2. To review the effectiveness of shareholder working group sessions, taking place outside of HAML Board meetings.
3. To schedule more time for Non-Executive Directors to hold discussions without management present.

Individual evaluations were also carried out by each of the HAML Board's formal committees in 2020. Overall, the reviews showed a consensus that the HAML Board and its committees were functioning well and were effective. No material shortcomings in relation to the operation of the HAML Board and its committees were highlighted by the reviews. The Chairman confirms that each director continues to make a valuable contribution to the HAML Board and, where relevant, its committees.







# AUDIT COMMITTEE



The Audit Committee continues to play a key role in assisting the Board in fulfilling its oversight responsibility.

**OLIVIER FORTIN**  
CHAIR

## OTHER COMMITTEE MEMBERS

- Jorge Gil
- 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 2020. During the year the Committee continued to play a key role in assisting the Board in fulfilling its oversight responsibility. Its activities included reviewing and monitoring the integrity of financial information, the Group's system of internal controls and risk management, the internal and external audit process and the process for compliance with laws, regulations and ethical codes of practice. During a large part of the year and at year-end, the Committee's focus has been predominantly on the impact of the COVID-19 pandemic on the business, which has increased the complexity and number of key judgements in the financial statements including in relation to the measurement of assets and liabilities at year end, going concern and exceptional items. The Finance team and our external auditors have had to adapt to the restrictions imposed by remote working, which they have done well to ensure that our financial controls have been maintained.

## ROLES AND RESPONSIBILITIES

The Committee is a sub-committee of the H AHL 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 H AHL Board).
- Recommending the audit fee to the H AHL Board for approval and pre-approving any fees in respect of non-audit services provided by the external auditor and ensuring that the provision of non-audit services does not impair the external auditor's independence or objectivity.
- Agreeing with the external auditor the nature and the scope of the audit, and reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- Reviewing reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- Monitoring the integrity of the financial statements of the H AHL Group, and reviewing and challenging, where necessary, the actions and judgements of management in relation to the interim and annual financial statements, and any press release related to those statements.
- Reviewing Internal Audit reports to the Committee on the effectiveness of the H AHL Group's systems for internal control, financial reporting and risk management.
- Reviewing the external auditor's management letter and management's responses.
- Considering management's response to any major external or internal audit recommendations.
- Approving the appointment and dismissal of the Director of Internal Audit, Risk and Assurance.
- Reviewing Heathrow's procedures for handling allegations from whistleblowers.
- Reviewing the ethics policy and monitoring its application throughout the business, considering any ethical issues which arise as a result of audit findings.
- Overseeing all press releases relating to external financial results.
- Reviewing Heathrow's tax policy and insurance strategy and arrangements.
- Reviewing the results of the Data Protection Officer's data privacy compliance monitoring programme and ensuring that the Data Protection Office is adequately resourced to carry out its tasks.
- Considering the adequacy of management's response to any major data privacy non-compliance findings as a result of monitoring activities.
- Reviewing Internal Investigations and approving Internal Investigations Protocol.
- Confirming that the accounts are fair, balanced and understandable.
- Considering any other topics, as defined by the H AHL Board.

## 2020 ACTIVITY

The Committee held four meetings during the year and its main activities were to:

### FINANCIAL REPORTING

- Review and recommend approval of the interim and preliminary results, draft annual report and the associated going concern statements, taking into consideration the disclosures against the FRC guidance on reflecting the impact of COVID-19.
- 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.
- Oversee and review disclosures required by TCFD.

### EXTERNAL AUDIT

- Consider reports by the external auditor on its audit and its review of the financial statements.
- Review the external audit strategy and assessed effectiveness of the external audit.
- Review and approve the proposed approach for transitioning our auditors in 2020.
- Review audit and non-audit fees incurred in 2020.

### INTERNAL AUDIT

- Approve the scope of the 2020 and 2021 internal audit plans.
- Review delivery of the 2019 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 58.
- Review the effectiveness of Heathrow's internal control systems and application of internal financial reporting controls.
- Monitor progress and review the approach to the upgrade of our general ledger and ERP system.
- Review effectiveness of, and provided guidance to, Heathrow's Fixed Asset Steering Group.

### GOVERNANCE AND OTHER

- Consider and approve our tax strategy and reviewed tax matters.
- Review the Committee's terms of reference.
- Receive corporate governance updates.
- Review Heathrow's procedures for handling allegations from whistleblowers and receive reports from the Internal Investigations Steering Group.
- Review the Committee's effectiveness.

## KEY JUDGEMENTS AND FINANCIAL REPORTING MATTERS

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

Key judgement and financial reporting matters	Audit committee review and conclusions
<p><b>Impact of COVID-19 on financial reporting matters</b>                      COVID-19 has increased the complexity and number of key judgements in the financial statements.</p>	<p>The Committee assessed the effect of COVID-19 on financial reporting and control matters, with specific consideration of the following:</p> <ul style="list-style-type: none"> <li>• Effects of COVID-19 on the going concern assessment for the Group.</li> <li>• Consideration of the probability of expansion of the airport against the uncertainty created by COVID-19.</li> <li>• Impairment considerations across all assets held, taking into account the impact of COVID-19 on the forecasting and value of the Group.</li> <li>• Impact of the volatility changes in macroeconomic indicators due to COVID-19 on the fair value of the defined benefit pension scheme and investment properties.</li> <li>• Implications on the Group's internal control processes, including the challenges presented by remote working and a restructured workforce. The Committee agreed that Management had taken sufficient actions to ensure a robust control environment remained in place.</li> </ul> <p>Where management's judgement was required for the specific COVID-19 impacts listed above, the Committee's considerations and conclusions are detailed below.</p>
<p><b>Going concern</b>                      The directors are required to determine that the business is a going concern for at least 12 months from the date of signing the accounts.</p>	<p>The Committee reviewed the assumptions 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 a severe but plausible downside scenario. It was also noted that, in modelling the impact of COVID-19, there is a significant degree of uncertainty, given the evolving current environment and the wide range of potential forecasts being performed by various stakeholders in the global aviation industry.</p> <p>The Committee concluded it was appropriate to prepare the accounts on a going concern basis.</p>
<p><b>Assets held in the course of construction ('AICC') and probability of expansion</b>                      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.</p>	<p>The Committee received regular updates of work undertaken by the Fixed Asset Steering Group, who are responsible for ensuring capitalised costs are appropriate. At the Committee's request, additional financial controls were embedded into our processes over 2020 and continued improvement will take place during 2021.</p> <p>During the year, the Committee reviewed an impairment and write-off charge of £92m on assets in the course of construction, including £10m of spend related to expansion. The Committee concluded that the total impairment charge recognised of £92m was appropriate.</p> <p>The Committee reviewed Managements judgement that it remains probable that expansion of the airport will continue and therefore it is appropriate to have recognised £506m (after the aforementioned £10m impairment) of spend to date as an asset in the course of construction.</p> <p>The Committee noted that, in December 2020, the Supreme Court ruled the Airports National Policy Statement ('ANPS') as legal and, although the current COVID-19 crisis is expected to delay the opening of the third runway by at least two years, it remains Management's belief that in the longer term, once the benefits of air travel and connectivity have been restored, an expanded Heathrow will be required.</p> <p>It also however noted there was still uncertainty including the agreement of a regulatory framework which includes the incentives needed for investment and the overall response to the DCO application once it is submitted.</p> <p>Considering all factors in relation to Expansion, 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.</p>

Key judgement and financial reporting matters	Audit committee review and conclusions
<p><b>Impairment considerations – implication of COVID-19</b></p> <p>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.</p>	<p>Due to the impact of the COVID-19 pandemic on operations, business performance and wider economic uncertainty the Committee reviewed and challenged the impairment assessment carried out by management for each cash generating unit ('CGU') identified.</p> <p>The Committee reviewed the assumptions and inputs used to calculate the enterprise value for each CGU and noted there was sufficient headroom when comparing the book value of assets to the valuation derived. In addition to this, the Audit Committee reviewed the assumptions and inputs used to calculate the enterprise value for entity level investments, including the judgement made in relation to the inclusion of a potential RAB adjustment. The Committee noted there was sufficient headroom and reviewed the disclosures made in relation the judgements applied to the impairment analysis.</p>
<p><b>Fair value of investment properties</b></p> <p>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.</p>	<p>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 current year fair value position was noted as being particularly volatile due to COVID-19 and global economic uncertainty.</p> <p>The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note 7.</p>
<p><b>Valuation of the retirement benefit obligation</b></p> <p>The HAHL Group operates a defined benefit pension scheme with both open and closed sections.</p> <p>Assessing the defined benefit pension obligation requires significant estimate and judgement, in particular with regard to discount rate, inflation and mortality.</p>	<p>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 2020 were based on reasonable methodology and within an acceptable range.</p> <p>The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note 16.</p>
<p><b>Hedge accounting</b></p> <p>The HAHL Group designates certain derivative financial instruments as cash flow hedges.</p> <p>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.</p>	<p>The Committee sought quarterly updates on management's assessments, including justification of the key assumptions which support the Cash Flow Hedge Reserve.</p>
<p><b>Fair value of derivative financial instruments</b></p> <p>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.</p> <p>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).</p>	<p>The Committee requested quarterly updates on the estimated fair value of open derivatives and justification of the valuation estimate.</p> <p>The current year fair value position was noted as being particularly volatile due to COVID-19 and global economic uncertainty. The Committee was satisfied that the volatility was being appropriately managed and did not risk the financial stability of the HAHL Group.</p> <p>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.</p> <p>Further detail regarding the sensitivity of the year-end valuation to key assumptions can be found in note 14.</p>
<p><b>Exceptional items</b></p> <p>The Company separately presents certain exceptional items on the face of the income statement that impair the visibility of the underlying performance and trends between periods. Exceptional items are material items of income or expense that are considered to merit separate presentation because of their size or nature. They are not expected to be incurred on a recurring basis.</p> <p>Judgement is required in determining whether an item should be classified as an exceptional item or included within underlying results.</p>	<p>The Committee reviewed the accounting treatment of exceptional items and agreed that the items listed in note 3 are exceptional in size and nature in relation to the Group and therefore it is appropriate to disclose them separately.</p>

# REMUNERATION COMMITTEE



The Remuneration Committee continues to have responsibility for determining the remuneration of members of the Executive Committee and senior managers.

**JORGE GIL**  
CHAIR

## COMMITTEE MEMBERS

- Ernesto Lopez
- Stuart Baldwin
- Ahmed Al-Hammadi

## INTRODUCTION

I am pleased to present the Remuneration Committee (the 'Committee') report for the year ended 31 December 2020. 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. In doing so, the Committee takes advice from independent external experts who provide updates on legislative requirements, market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the company operates and from other sectors. The Committee has clearly defined terms of reference.

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

Each year the Group publishes its Gender Pay Report which can be found at [www.heathrow.com](http://www.heathrow.com).

## ROLES AND RESPONSIBILITIES

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

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

## 2020 ACTIVITIES

The Remuneration Committee held four scheduled meetings during the year as well as additional six meetings in support of the Group's response to COVID-19. Its main activities were:

- Approved the outcome and payment of the 2019 annual bonus and 2017 SIS Grant.
- Reviewed the output of the Senior Leadership Talent Review.
- Reviewed the Diversity and Inclusion Strategy.
- Approved the 2020 Heathrow Gender Pay Gap; reviewed progress made to date and the associated action plan.
- Reviewed the 2020 Heathrow Ethnicity Pay Gap.
- Endorsed the approach for delivering the savings required as a result of COVID-19 from people related initiatives, including reducing the cost per colleague and implementing a temporary salary reduction for management grades.
- Agreed the implementation and terms of the new market aligned reward strategy and endorsed the overall approach to reduce the cost per colleague by introducing market aligned salaries and allowances through a buyout combined with offering voluntary severance.
- Approval to not launch any 2020 annual bonus plans or 2020 long-term incentive plans or implement a management salary review.
- Approved the Heathrow Furlough arrangements and reviewed extensions to the scheme based on Government guidelines and resource requirement.
- Approved the approach, principles and termination terms for management grade organisational design changes.
- Approved Termination Terms for senior leaders.
- Approved retention arrangements and the design of a company-wide recovery incentive plan for the Performance Period 1 January 2021 to 31 December 2022.
- Reviewed and approved the design of the 2021 annual bonus plans and 2021 Share in Success Grant and Saver plans.
- Approved the extension of Professor David Begg's terms as an Independent Non-Executive Director.
- Reviewed the Committee's effectiveness.

## 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, it is our intention to introduce an ESG performance metric to future incentive plans, which will focus individual behaviour on making sustainable choices and reward 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), however, remuneration themes are broadly consistent across the wider workforce. 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 <sup>1</sup>	Other management colleagues	Negotiated grade colleagues
<p><b>Base salary</b></p> <p>To secure and retain quality individuals to deliver Heathrow's strategy.</p>	<p>Base salaries are typically reviewed annually, and set taking into account:</p> <ul style="list-style-type: none"> <li>the role's scope, responsibilities and accountabilities,</li> <li>remuneration benchmarking and competitive market practice,</li> <li>individual performance, and</li> <li>fair pay and conditions across Heathrow's workforce.</li> </ul>	<p>Base salaries are reviewed annually, and set taking into account:</p> <ul style="list-style-type: none"> <li>the role's scope, responsibilities and accountabilities,</li> <li>remuneration benchmarking and competitive market practice,</li> <li>individual performance, and</li> <li>fair pay and conditions across Heathrow's workforce.</li> </ul>	<p>Frontline colleague salaries are subject to collective bargaining with Heathrow's recognised trade unions.</p>
<p><b>Benefits</b></p> <p>To comprise part of a market competitive remuneration package.</p>	<p>Benefits include cash travel allowance and private healthcare, life assurance and permanent health insurance.</p>	<p>Eligibility for benefits is determined by an individual's organisational band and includes some or all of: cash travel allowance, private healthcare, life assurance and permanent health insurance.</p>	<p>Benefits include life assurance and permanent health insurance.</p>
<p><b>Retirement provisions</b></p> <p>To comprise part of a market competitive remuneration package, rewarding sustained contribution and encouraging retention.</p>	<p>Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008.</p> <p>Colleague contribution rates are either 3%, 5% and 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively.</p> <p>Alternatively, the Executive committee may also be offered a fixed percentage of their annual base salary. The Chief Executive Officer receives a supplement of 30% of annual base salary having been granted protection by HMRC for the Lifetime Allowance for pensions.</p>	<p>Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008.</p> <p>Colleague contribution rates are either 3%, 5% and 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively.</p> <p>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.</p> <p>All colleagues impacted by the Lifetime Allowance or Annual Allowance may opt for an alternative cash allowance. This amounts to £10,000 payable as an Employer Pension Contribution, if applicable, with the balance payable as a salary supplement.</p>	<p>Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008.</p> <p>Colleague contribution rates are either 3%, 5% and 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively.</p> <p>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.</p> <p>All colleagues impacted by the Lifetime Allowance or Annual Allowance may opt for an alternative cash allowance. This amounts to £10,000 payable as an Employer Pension Contribution, if applicable, with the balance payable as a salary supplement.</p>
<p><b>Annual bonus</b></p> <p>Motivates the achievement of Heathrow's strategic ambitions, linking this with annual measurable performance criteria and rewarding individual contributions to Heathrow's success.</p>	<p>Executive committee participate in the Heathrow Bonus Plan. The plan is measured against targets for EBITDA (75% weighting) and Gross Operating Expenses (25% weighting).</p> <p>Subject to satisfying individual and financial performance criteria, the maximum incentive opportunity is 100% of base salary for the Chief Executive Officer. This is paid in March of the following year.</p> <p>The 2019 Heathrow Bonus Plan payment was paid in March 2020.</p> <p>The Heathrow Bonus Plan was not launched in 2020 due to the impact of COVID-19.</p>	<p>Management colleagues participate in the Heathrow Bonus Plan. The plan is measured against targets for EBITDA (75% weighting) and Gross Operating Expenses (25% weighting).</p> <p>Eligibility for annual bonus and target bonus opportunity is determined by an individual's organisational band e.g. target value of 7.5% of salary. Subject to satisfying individual and financial performance criteria, the maximum bonus opportunity for participants is 200% of target e.g. 15% of salary. This is paid in March of the following year.</p> <p>The 2019 Heathrow Bonus Plan payment was paid in March 2020.</p> <p>The Heathrow Bonus Plan was not launched in 2020 due to the impact of COVID-19.</p>	<p>Frontline colleagues participate in the Airport Profit Bonus with payment determined by EBITDA performance.</p> <p>The 2019 Airport Profit Bonus payment was paid in March 2020.</p> <p>The Airport Profit Bonus plan was not launched in 2020 due to the impact of COVID-19.</p>

<sup>1</sup> Also applies to the directors of Heathrow Airport Ltd.



Component and purpose in supporting business strategy	Executive committee <sup>1</sup>	Management Colleagues	Negotiated grade colleagues
<p><b>Long-term incentive plan</b></p> <p>Aligns the interests of executive directors with those of our ultimate shareholders, rewarding long-term sustainable results, creating shareholder value and encouraging retention.</p>	<p>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 200% 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.</p> <p>The SIS Grant is measured against targets for EBITDA (40% weighting), Airport Service Quality ('ASQ') score (30% weighting) and the return on Regulatory Assets Base ('RAB') for our shareholders (30% weighting).</p> <p>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.</p> <p><b>There are currently two SIS Grants in operation:</b></p> <ul style="list-style-type: none"> <li>• 2018 SIS Grant: performance measured over 2018 to 2020; vesting deferred from June 2021 to November 2021 and payment from August 2021 to December 2021 to aid retention in response to COVID-19.</li> <li>• 2019 SIS Grant: performance measured over 2019 to 2021; payment in August 2022.</li> </ul> <p>The 2020 SIS Grant was not launched due to the impact of COVID-19.</p> <p>The Committee can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards.</p>	<p>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.</p> <p>The SIS Grant is measured against targets for EBITDA (40% weighting), Airport Service Quality ('ASQ') score (30% weighting) and the return on Regulatory Asset Base ('RAB') for our shareholders (30% weighting).</p> <p>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.</p> <p><b>There are currently two SIS Grants in operation:</b></p> <ul style="list-style-type: none"> <li>• 2018 SIS Grant: performance measured over 2018 to 2020; vesting deferred from June 2021 to November 2021 and payment from August 2021 to December 2021 to aid retention in response to COVID-19.</li> <li>• 2019 SIS Grant: performance measured over 2019 to 2021; payment in August 2022.</li> </ul> <p>The 2020 SIS Grant was not launched due to the impact of COVID-19.</p> <p>The Remuneration Committee can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards.</p> <p>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 metrics in the SIS Saver plan are aligned with the targets of the SIS Grant. The 2019 SIS Saver plan is closed to new entrants. The 2020 SIS Saver plan was not launched due to COVID-19, with the intention of launching a new plan in 2021.</p> <p>There is currently one SIS Saver plan in operation:</p> <ul style="list-style-type: none"> <li>• 2019 SIS Saver: performance measured over 2019 to 2021; payment in July 2022.</li> </ul>	<p>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 metrics in the SIS Saver plan are aligned with the targets of the SIS Grant. The 2019 SIS Saver plan is closed to new entrants. 2020 SIS Saver plan was not launched due to COVID-19, with the intention of launching a new plan in 2021.</p> <p>There is currently one SIS Saver plan in operation:</p> <ul style="list-style-type: none"> <li>• 2019 SIS: performance measured over 2019 to 2021; payment in July 2022.</li> </ul>

## 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 2020).

**Target<sup>1</sup>:** Minimum plus the SIS Grants in operation vest at the target level (annualised).

**Maximum<sup>1</sup>:** Minimum plus the SIS Grants in operation vest in full (annualised).

<sup>1</sup> The Heathrow Bonus Plan and SIS Grant was not launched in 2020 due to the impact of COVID-19. The SIS Grant entitlement in 2018 was waived.



## CHIEF EXECUTIVE OFFICER REMUNERATION

The table below presents the remuneration figures for the Chief Executive Officer for the years ended 31 December 2019 and 31 December 2020:

2020	Fixed Pay (£)				Performance Pay (£)			2020 total
	Salary <sup>1</sup>	Benefits	Pension	Sub-total	Annual bonus <sup>2</sup>	SIS Grant vesting <sup>3</sup>	Sub-total	
<b>Chief Executive Officer</b>								
John Holland-Kaye	556,778	19,340	226,191	802,309	–	–	–	802,309

<sup>1</sup> As part of the initiatives to protect the financial resilience of the business from the impact of COVID-19, John Holland-Kaye forfeited three months of his 2020 salary.

<sup>2</sup> There will be no 2020 annual bonus.

<sup>3</sup> Expected 2018 SIS Grant (based on performance measured over the three years 2018 to 2020) is nil as the SIS Grant entitlement was waived.

2019	Fixed Pay (£)				Performance Pay (£)			2019 total
	Salary	Benefits	Pension	Sub-total	Annual bonus <sup>1</sup>	SIS Grant vesting <sup>2</sup>	Sub-total	
<b>Chief Executive Officer</b>								
John Holland-Kaye	750,905	19,577	225,272	995,754	660,978	1,086,063	1,747,041	2,742,795

<sup>1</sup> Actual 2019 annual bonus. Prior year accrued annual bonus has been restated to reflect the actual payment made.

<sup>2</sup> Actual 2017 SIS Grant (based on performance measured over the three years 2017 to 2019). Prior year expected SIS Grant has been restated to reflect the actual payment made.

## 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



The Sustainability and Operational Risk Committee continues to review safety performance and challenge Heathrow's policies, conduct, performance and risk management approach against sustainability goals and operational activities.

**PROFESSOR DAVID BEGG**  
CHAIR

## OTHER COMMITTEE MEMBERS

- John Holland-Kaye
- Jorge Gil
- Olivier Fortin
- His Excellency Akbar Al-Baker

## INTRODUCTION

I am pleased to present the Sustainability and Operational Risk Committee (the 'SORC') report for the year ended 31 December 2020. The SORC continued to perform a valuable role reviewing Heathrow's policies, conduct, performance and risk management approach against the sustainability goals and operational objectives during a challenging period. Amongst other things, the SORC reviewed the impacts and risks of the COVID-19 outbreak on the airport's operations, colleagues and passengers, including engagement with Public Health England, mitigations and the development of Heathrow's 'Safe to fly Programme'.

## ROLES AND RESPONSIBILITIES

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

- Reviewing Heathrow's policies, conduct, performance and risk management approach against sustainability goals and operational activities.
- Reviewing and challenging the performance and conduct of the HAHL Group relating to operational risks and delivery of sustainability goals.
- Monitoring and challenging management over the effectiveness of the relevant internal control systems and having access to any audit or assurance report it considers relevant.

- Reviewing and assessing management's response to significant operational incidents and having 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.

## 2020 ACTIVITIES

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

### SAFETY

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

## SECURITY

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

## SUSTAINABILITY

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

## RISK AND ASSURANCE

- Review the principal risks to ensure alignment with the corporate-governance framework and strategy.
- Provide challenge to the business with regards to audit and assurance reports.
- Review and advise on Brexit contingency planning.
- Review Heathrow's 2020 Top 10 KPI Targets.

## GOVERNANCE

- Review the SORC's effectiveness.

# NOMINATIONS COMMITTEE



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

**LORD DEIGHTON**  
CHAIR

## OTHER COMMITTEE MEMBERS

- Jorge Gil
- 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 2020. The Committee met once during the year. The purpose of the Committee is to maintain an appropriate balance of skills, experience, independence and diversity on the HAHL Board. The Committee also reviews the size, structure and composition of the HAHL Board and ensures that there is a robust and transparent process for the appointment of new Independent Non-Executive Directors.

## ROLES AND RESPONSIBILITIES 2020 ACTIVITIES

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

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

The Nominations Committee met once during the year to consider the potential appointment of an additional Independent Non-Executive Director however the process was suspended as a consequence of COVID-19.

# FINANCE COMMITTEE



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.

**ERNESTO LOPEZ**  
CHAIR

## 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 2020. The Committee acts as both a HAHL Board Committee for the approval of matters relating to the financing of the HAHL Group and a forum for obtaining consents required from the Shareholders of FGP Topco Limited pursuant to the Shareholders' Agreement. This has been a particularly important year for the Committee as the financing of the HAHL Group has been severely tested by the impact of the COVID-19 pandemic. The Committee's primary focus has been on ensuring the HAHL Group maintained sufficient liquidity at all times and its financial covenants were protected. The HAHL Group has navigated the challenges of COVID-19 and it was pleasing to see the HAHL Group retain its access to both the public and private debt markets throughout the year and successfully receive the support of creditors to waive or amend certain financial covenants. In April 2020, Ruth Kelly joined the Committee in her capacity as an Independent Non-Executive Director.

## ROLES AND RESPONSIBILITIES

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

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

## 2020 ACTIVITIES

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

- Financing mitigation plans in response to the impact of COVID-19 as listed below.
- Debt funding for Heathrow, including bond issuances, credit facilities and private placements.
- Heathrow's Funding and Investment Engagement Plan.
- The Heathrow (SP) Limited and Heathrow Finance plc 2020 Investor Reports.
- The base prospectus and supplements thereto for Heathrow Funding Limited.
- Heathrow's Treasury Hedging Strategy.
- Heathrow's Payment and Revenue Policy.
- Heathrow's Resourcing and Cost Protection Plan.
- Heathrow's weekly Financing Dashboard.

## MITIGATION ACTIVITIES IN RESPONSE TO COVID-19 PANDEMIC

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

- A consent exercise at Heathrow Finance plc to waive and amend certain financial covenants for the financial years ending 31 December 2020 and 31 December 2021.
- Raising £1.4bn of Class A funding in the public markets and £0.2bn of Class B funding in the private markets to strengthen liquidity.
- Restoring the ADI Finance 2 Limited level of the capital structure with £750m of new Notes to provide additional headroom to Group gearing levels.
- Prepayment in 2020 of certain expenses due in 2021 resulting in favourable working capital movements in 2021.
- Reprofilling cashflows under existing interest rate and inflation swaps and the completion of new interest rate swaps to help reduce interest payments over the next few years.
- Drawing of the revolving credit and other facilities earlier than expected.

# HEATHROW AIRPORT LIMITED DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

Heathrow provides service to a range of market segments, including business and leisure travellers, direct and transfer passengers on long and shorthaul routes, operated by a diversified range of major airlines. Heathrow generates revenue from a variety of sources, including services to airlines, concession fees from retail operators, income from car parks, advertising revenue, the rental of airport premises and the provision of facilities and services.

## RESULTS AND DIVIDENDS

The loss after taxation for the financial year amounted to £1,353 million (2019: £631 million profit).

Dividends of £107 million (2019: £421 million) were paid to Heathrow (AH) Limited during the year. The dividend payments were used to fund dividends to the Group's ultimate shareholders.

The statutory results for the year are set out on page 128.

## DIRECTORS

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

**Ross Baker**

**Stuart Birrell** - Resigned 17 March 2020

**Javier Echave**

**Chris Garton**

**Emma Gilthorpe**

**John Holland-Kaye**

**Carol Hui**

**Andrew Macmillan**

**Paula Stannett**

## 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 HAML Group. The Group directly incurs the employment cost of services provided to the Group as stated in the Accounting policies on page 142.

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 89.

## 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 76.

## 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 pages 76.

## STREAMLINED ENERGY AND CARBON REPORTING

In accordance with the Streamlined Energy and Carbon Reporting requirements, the Group's energy usage has been reported in the Strategic Report on page 42.

## SUBSEQUENT EVENTS

Subsequent events are disclosed in note 26.

## FINANCIAL INSTRUMENTS

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 14.

## 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 2020 financial year and at the date of approving the financial statements and reports.

Matters disclosed in strategic report	Page
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<b>Description of our Principal Risks</b>	
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## AUDITOR

After a comprehensive tender process, and recommendation made by the Audit Committee, the Board has appointed PricewaterhouseCoopers ('PwC') as auditor of the Group for the financial year ending 31 December 2020.

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the appointment of the auditor PricewaterhouseCoopers ('PwC') will be proposed within the period set out in section 485.

## 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 themselves 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

24 February 2021

Company registration number: 01991017

## DIRECTORS' RESPONSIBILITIES STATEMENT

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 company and of the profit or loss of the 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 United Kingdom Accounting Standards, comprising FRS 102 have been followed, 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 company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of 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 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 company's auditors are aware of that information.

## SECTION 03

# FINANCIAL STATEMENTS

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# Independent auditors' report to the members of Heathrow Airport Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Heathrow Airport Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- 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 statement of financial position as at 31 December 2020; the income statement, the statement of comprehensive income and the statement of changes in equity 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the going concern section of the accounting policies to the financial statements concerning the company's ability to continue as a going concern. Heathrow has been significantly impacted by the COVID-19 pandemic which has resulted in a rapid deterioration in passenger traffic and cashflows. The company's forecast and projections assume a continued phased increase in passenger forecast which represents a significant reduction to historical revenue levels, along with cost saving measures and reductions in capital expenditure. In the event there are further waves of the pandemic, or the implementation or continuation of local lockdown periods, leading to further travel restrictions being imposed worldwide, the company, whilst having sufficient liquidity, may require further covenant waivers in respect to the group interest cover ratio and group regulated asset ratio measured as at 31 December 2021. These conditions, along with the other matters explained in the going concern section of the accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

# Heathrow Airport Limited

## Independent auditors' report to the members of Heathrow Airport Limited *continued*

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

### Our audit approach

#### Context

This is our first year as auditors of the company. During our first year we have performed extensive audit transition activities and met with members of the Board and management to understand the business, its challenges, opportunities and associated risks

#### Overview

Audit scope

- We performed full scope audit procedures over the company.

Key audit matters

- Material uncertainty related to going concern
- Carrying value of Expansion asset in construction
- Valuation of derivative financial instruments - inflation linked swaps including day 1 fair valuation and credit risk adjustment
- Valuation of investment properties - commercial car parks
- Valuation of retirement benefit obligations
- Impact of COVID-19

Materiality

- Overall materiality: £35m which reflects approximately 2.8% of a 5 year average adjusted EBITDA.
- Performance materiality: £26m.

#### 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.

#### Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 company 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 preparation of 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, internal audit and the company's legal team, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.

# Heathrow Airport Limited

## Independent auditors' report to the members of Heathrow Airport Limited *continued*

### Capability of the audit in detecting irregularities, including fraud *continued*

- Challenging assumptions and judgements made by management in its significant accounting estimates in relation to the carrying value of Expansion assets in construction; valuation of derivative financial instruments, investment properties and retirement benefit obligations; impairment assessment of tangible including the recoverability of deferred tax assets in relation to losses (see related key audit matters below).
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals crediting revenue or those posted by unexpected users.

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.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Carrying value of Expansion asset in construction</b></p> <p>Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 7 in the financial statements.</p> <p>Assets in the course of construction include qualifying 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.</p> <p>These two events were considered by management to be a trigger point for the expansion project to proceed. Management subsequently announced publicly that the company would apply for planning permission, in the assessment that it is probable that expansion at Heathrow will be realised. As a result, the company has started to capitalise eligible costs as 'assets in the course of construction'.</p> <p>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.</p> <p>In accordance with IAS 16 - Property, plant and equipment, <i>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.</i></p>	<p>We performed the following audit procedures in order to assess whether expansion is probable and the expansion project will generate an economic return:</p> <ul style="list-style-type: none"> <li>• We challenged management by identifying both the corroborative and contradictory evidence relating to the impairment risk for expansion. This included assessing UK government policy and the status of associated legal challenges, parliamentary and regulatory support, consistency with climate change considerations and the basis of the views of the Board of Directors.</li> <li>• We considered the political and economic factors for and against expansion and the impact of these on what represents a significant infrastructure project in the UK, including the impact of COVID-19 both to the aviation industry as a whole and to Heathrow's business plan for expansion.</li> <li>• We evaluated whether details regarding the expansion are disclosed appropriately in the financial statements, including significant estimates and judgements to the extent necessary.</li> </ul> <p>Based on the above work performed, we have concluded that although the risk of impairment is a finely balanced judgement, we concur with management's view that the asset is not impaired at 31 December 2020.</p>



# Heathrow Airport Limited

## Independent auditors' report to the members of Heathrow Airport Limited *continued*

<p>We focused expansion as there is a risk of impairment that may arise in the event that it is not probable the project will generate future economic benefits</p>	
<p><b>Valuation of derivative financial instruments - inflation linked swaps including day 1 fair valuation and credit risk adjustment</b></p> <p>Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 15 in the financial statements.</p> <p>As at 31 December 2020, the company held derivative assets of £88m and derivative liabilities of £1,021m on the balance sheet. Included in these derivative balances were inflation linked swaps totalling £52m assets and £566m liabilities. These are held to mitigate interest rate and foreign exchange risk arising on material levels of debt.</p> <p>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.</p> <p>Due to the nature and complexity in the valuation involved, we identified a significant risk that the fair value of inflation linked swaps may be misstated. The risk is mainly driven by:</p> <ul style="list-style-type: none"> <li>the treatment (being manual in nature) of valuation differences between the consideration paid or received and the system derived fair value on inception or restructuring; and</li> <li>the application of credit risk (in particular the assumed loss given default percentage) to the valuation due to these derivatives ranking as super senior in the priority of payments.</li> </ul>	<p>We, with the support of our Treasury experts, performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>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 2020;</li> <li>Recalculated and assessed the accounting treatment for the day-1 fair value of derivatives in line with IFRS 9 - Financial Instruments and IFRS 13 - Fair Value Measurement;</li> <li>Inspected the documentation supporting the super senior nature of interest rate swaps and inflation linked swaps where a higher recovery rate is used in the valuation and evaluated whether the rate used is in line with the expected market rate;</li> <li>Tested the application and quantum of the recovery rate applied to the super senior derivatives; and</li> <li>Assessed management's derivative fair value disclosures in the financial statements.</li> </ul> <p>The results of our procedures above did not identify any exceptions. We consider management's derivative fair value disclosures in the financial statements to be adequate.</p>
<p><b>Valuation of investment properties – commercial car parks</b></p> <p>Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 9 in the financial statements.</p> <p>The value of investment properties is £2,118m as at 31 December 2020, a decrease of £404m from 31 December 2019. Investment properties include rental properties (residential and commercial), car parks, airport lounges and advertising sites.</p> <p>As per the company accounting policies, car parks are accounted for in accordance with IAS 40 "Investment Property".</p> <p>The car park portfolio represents 48% of the investment properties balance as at 31 December 2020. We identified a significant risk in relation to the valuation of public car parks due to the estimation uncertainty in the passenger forecast assumption, and therefore revenue, applied to management's discounted cash flow models.</p> <p>Management adopted short term assumptions regarding revenue which are in line with those used within their going concern and goodwill impairment assessments. Other key assumptions include passenger forecasts, growth rate and operating cost savings.</p> <p>Management's experts included a material valuation uncertainty in their valuation report as at 31 December 2020</p>	<p>We engaged our Real Estate Valuation experts to perform specific procedures to assist in our evaluation of whether the assumptions and methodology used in valuing the investment properties were appropriate. We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>Held discussions with management's expert and management to understand changes to valuations and challenged them on a number of key assumptions including passenger forecasts, growth rate and operating costs;</li> <li>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;</li> <li>Tested information provided to management's expert on a sample basis to assess the completeness and existence of, and company's rights to ownership of the properties within the portfolio; and</li> <li>Evaluated the adequacy of disclosures in the financial statements, particularly in respect of the material valuation uncertainty.</li> </ul> <p>The results of our procedures above did not identify any exceptions. We consider the disclosures in the financial statements to be adequate.</p>

# Heathrow Airport Limited

## Independent auditors' report to the members of Heathrow Airport Limited *continued*

<p><i>Valuation of investment properties – commercial car parks continued</i></p> <p>in relation to public car parks due to the uncertainty over passenger numbers. Whilst this does not invalidate the valuation, it does serve as a caution. As a result of this, there was a need to include increased disclosure in the financial statements to adequately illustrate the risk of estimation uncertainty in relation to passenger forecasts. Management has therefore disclosed the quantitative impact of movements in passenger numbers on the valuation in the financial statements.</p>	
<p><i>Valuation of retirement benefit obligations</i></p> <p>Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 18 in the financial statements. At 31 December 2020, the valuation of the BAA Pension Scheme obligation is £4,784m and there are pension plan assets of £4,796m in the Consolidated statement of financial position. The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation (including discount rates, inflation rates, salary increases and mortality) can have a material impact on the valuation of the pension obligations. The valuation performed as at 31 December 2020 takes account of the changes in scheme membership from special events in the year, being the scheme curtailment and settlement giving rise to past service costs. Of the £4,796m of pension plan assets, there are more complex pooled investment vehicles (PIVs) as a result of an element of the underlying investments being classified as level 3. As the nature of these assets is more complex; the valuation of these PIVs could have a material impact on the valuation of the pension asset</p>	<p>We engaged our actuarial experts to evaluate whether the assumptions and methodology used in calculating the pension liabilities were appropriate, by:</p> <ul style="list-style-type: none"> <li>● Assessing whether salary increases and mortality rate assumptions were reasonable based on the consideration of the specifics of each plan, pension plans of similar maturity to the company's and industry benchmarks;</li> <li>● Comparing the consistency of the discount and inflation rate assumptions with our internally developed benchmarks based on national data;</li> <li>● Reviewing the methodology and calculations prepared by management's external actuaries to assess the appropriateness and the consistency of the assumptions used; and</li> <li>● Assessing whether the special events within the period have been appropriately accounted for under IAS 19.</li> </ul> <p>Based on our procedures, we concluded that the key assumptions utilised were within acceptable ranges. We assessed the related disclosures included in the company financial statements and consider them to be appropriate.</p> <p>With respect to the pension assets, we obtained an understanding of the nature of the assets and obtained third party confirmations from investment managers. We also considered the extent to which there was any evidence available which might contradict the valuation and none was identified.</p> <p>No exceptions were identified from the above procedures performed</p>

<p><b>Impact of COVID-19</b></p> <p>Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters' and the COVID-19 section within the Accounting Policies.</p> <p>The COVID-19 outbreak developed rapidly during 2020. Measures taken to contain the virus have affected the wider economy and directly impacted the company's results.</p> <p>In addition, the lockdown in January and February 2021 has also resulted in the year end financial close process, as well as the external audit, having to take place remotely.</p> <p>Management has considered the impact of COVID-19 on the financial statements. Primarily, these considerations related to the possible impairment of intangible and tangible assets, including probability of expansion; the going concern basis of preparation; the recognition of deferred tax assets; and accounting for exceptional items.</p>	<p>There was a risk that the financial impact due to COVID-19 which had been recorded by management is inaccurate or that we may have been unable to obtain sufficient appropriate audit evidence in order to support our conclusions in respect of this assessment. Our audit focused on those areas where management identified potential financial impacts arising as a result of the pandemic, which, based on our independent risk assessment, could have given rise to a risk of material misstatement.</p> <p>Despite undertaking most of our year end work remotely, we did not encounter any significant difficulties in performing our audit testing or in obtaining the required evidence to support our audit conclusions.</p> <p>Other than as already described in the relevant sections within this report (including the material uncertainty related to going concern section and the matters disclosed in the key audit matters above, we noted the following key material impacts on the financial statements, arising from COVID-19:</p> <ul style="list-style-type: none"> <li>• We tested management's cash flow models used to assess for possible impairments of intangible and tangible assets impairment, and to support the going concern basis of preparation and the deferred tax asset in relation to losses. We evaluated management's assumptions in those models in light of both historical and post year end performance. Where relevant, downside scenarios were modelled by management which we assessed using our independent sensitivities. We also evaluated the consistency of the various forecast models.</li> <li>• In relation to going concern, we have understood the debt covenants, assessed the forecast covenant calculations and the adequacy of management's disclosure in relation to going concern basis of preparation.</li> <li>• We assessed the classification and accuracy of the exceptional items.</li> </ul> <p>We reviewed the disclosures in the financial statements in respect of the impact of COVID-19 and concluded that these are appropriate. Based on the above work performed, we found that management's conclusions in respect of the impact of COVID-19 on the company are appropriate.</p>
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# Heathrow Airport Limited

## Independent auditors' report to the members of Heathrow Airport Limited *continued*

### 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 company, the accounting processes and controls, and the industry in which it operates.

Our audit effort included test of controls and substantive testing of material financial statement line items.

### 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:

<i>Overall company materiality</i>	£35m
<i>How we determined it</i>	Materiality reflects approximately 2.8% of a 5 year average adjusted EBITDA. Adjusted EBITDA is before certain measurements namely, fair value gains/losses on investment properties.
<i>Rationale for benchmark applied</i>	The impact of COVID-19 on the financial statements has resulted in a significant decline in adjusted EBITDA and, therefore, given the volatility in the financial statements in the current year, we considered a 5 year average adjusted EBITDA to be a more appropriate benchmark. In making this assessment, we also considered the company's track record of maintaining steady levels of adjusted EBITDA over the past 5 years which indicate that the significant decline in the 2020 results should not be considered in isolation, especially given that the asset base and the fundamental nature of operations of the business have remained largely unchanged year on year.

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% of overall materiality, amounting to £26m for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1.4m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

# Heathrow Airport Limited

## Independent auditors' report to the members of Heathrow Airport Limited *continued*

### 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 2020 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

# Heathrow Airport Limited

## Independent auditors' report to the members of Heathrow Airport Limited *continued*

### 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 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 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.

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](http://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 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  
24 February 2021

# Heathrow Airport Limited

## Income statement for year ended 31 December 2020

	Year ended 31 December 2020				Year ended 31 December 2019			
	Note	Before certain re-measurements and exceptional items <sup>1</sup> £m	Certain re-measurements <sup>2</sup> £m	Exceptional items <sup>3</sup> £m	Total £m	Before certain re-measurements £m	Certain re-measurements <sup>1</sup> £m	Total £m
<b>Continuing operations</b>								
Revenue	1	1,208	-	-	1,208	2,976	-	2,976
Operating costs <sup>4</sup>	2	(1,728)	-	(182)	(1,910)	(1,884)	-	(1,884)
Other operating items								
Fair value (loss)/gain on investment properties	7	-	(412)	-	(412)	-	43	43
<b>Operating (loss)/profit</b>		<b>(520)</b>	<b>(412)</b>	<b>(182)</b>	<b>(1,114)</b>	1,092	43	1,135
<b>Financing</b>								
Finance income		394	-	-	394	206	-	206
Finance costs		(662)	(147)	-	(809)	(617)	95	(522)
	4	(268)	(147)	-	(415)	(411)	95	(316)
<b>(Loss)/profit before tax</b>		<b>(788)</b>	<b>(559)</b>	<b>(182)</b>	<b>(1,529)</b>	681	138	819
Tax credit/(charge)		111	100	17	228	(164)	(24)	(188)
Change in tax rate		-	(52)	-	(52)	-	-	-
<b>Total tax credit/(charge)</b>	5	<b>111</b>	<b>48</b>	<b>17</b>	<b>176</b>	(164)	(24)	(188)
<b>(Loss)/profit for the year<sup>5</sup></b>		<b>(677)</b>	<b>(511)</b>	<b>(165)</b>	<b>(1,353)</b>	517	114	631

<sup>1</sup> Amounts stated before certain remeasurements and exceptional items are non-GAAP measures.

<sup>2</sup> Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of derivative 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.

<sup>3</sup> Exceptional items are one-off material costs that have been incurred as a result of management decisions made in response to COVID-19 and the delay to Expansion following the Judicial Review. Further details can be found in Note 3.

<sup>4</sup> Includes within operating costs is a £12 million (2019: £1 million) charge for the impairment of trade receivables.

<sup>5</sup> Attributable to owners of the parent.



# Heathrow Airport Limited

## Statement of comprehensive income for the year ended 31 December 2020

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
<i>Note</i>		
<b>(Loss)/profit for the year</b>	<b>(1,353)</b>	631
<b>Items that will not be subsequently reclassified to the income statement:</b>		
Actuarial (loss)/gain on pensions		
Gain on plan assets <sup>1</sup>	16 <b>389</b>	498
Increase in scheme liabilities <sup>1</sup>	16 <b>(492)</b>	(509)
Change in tax rate	16 <b>(1)</b>	-
<b>Other comprehensive (expense)/income for the year net of tax</b>	<b>(104)</b>	(11)
<b>Total comprehensive (expense)/income for the year</b>	<b>(1,457)</b>	620
<b>Attributable to owners of the parent</b>	<b>(1,457)</b>	620

<sup>1</sup> Items in the statement above are disclosed net of tax. The tax relating to each component of other comprehensive (expense)/income is disclosed in Note 16.

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

# Heathrow Airport Limited

## Statement of financial position as at 31 December 2020

	Note	31 December 2020 £m	31 December 2019 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	11,135	11,561
Investment properties	7	2,118	2,522
Intangible assets	8	181	174
Retirement benefit surplus	16	12	33
Investment in subsidiary	9	42	42
Derivative financial instruments	14	85	24
Trade and other receivables	11	2,038	2,492
		<b>15,611</b>	<b>16,848</b>
<b>Current assets</b>			
Inventories	10	14	13
Derivative financial instruments	14	3	-
Trade and other receivables	11	721	430
Term deposits	12	3,236	725
Cash and cash equivalents	12	270	812
		<b>4,244</b>	<b>1,980</b>
<b>Total assets</b>		<b>19,855</b>	<b>18,828</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	13	(14,914)	(13,189)
Derivative financial instruments	14	(1,000)	(1,086)
Deferred income tax liabilities	15	(384)	(480)
Retirement benefit obligations	16	(31)	(29)
Provisions	17	(1)	(1)
Trade and other payables	18	(29)	(29)
		<b>(16,359)</b>	<b>(14,814)</b>
<b>Current liabilities</b>			
Borrowings	13	(1,822)	(629)
Derivative financial instruments	14	(21)	(54)
Provisions	17	(15)	(8)
Current income tax liabilities		-	(27)
Trade and other payables	18	(499)	(591)
		<b>(2,357)</b>	<b>(1,309)</b>
<b>Total liabilities</b>		<b>(18,716)</b>	<b>(16,123)</b>
<b>Total assets less current liabilities</b>		<b>17,498</b>	<b>17,519</b>
<b>Net assets</b>		<b>1,139</b>	<b>2,705</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	19	35	35
Revaluation reserve	20	(109)	266
Retained earnings	21	1,213	2,404
<b>Total shareholders' equity</b>		<b>1,139</b>	<b>2,705</b>

These financial statements of Heathrow Airport Limited (Company registration number: 01991017) were approved by the Board of Directors and authorised for issue on 24 February 2021. They were signed on its behalf by:

**Javier Echave**  
Director

**John Holland-Kaye**  
Director

# Heathrow Airport Limited

## Statement of changes in equity for the year ended 31 December 2020

	Note	Share capital £m	Share premium £m	Revaluation reserves £m	Profit and loss reserve £m	Total £m
<b>1 January 2019</b>		37	-	691	1,778	2,506
<b>Profit for the year</b>		-	-	-	631	631
<b>Other comprehensive income/(expense)</b>						
Actuarial gain/(loss) on retirement benefit schemes:						
Gain on plan assets	21	-	-	-	498	498
Increase in scheme liabilities	21	-	-	-	(509)	(509)
<b>Total comprehensive income</b>		-	-	-	620	620
<b>Other movements</b>						
Transfer between reserves - investment property fair value movements <sup>1</sup>	20,21	-	-	43	(43)	-
Deferred tax on investment properties <sup>1</sup>	20,21	-	-	(6)	6	-
<b>Total transfer to revaluation reserve</b>		-	-	37	(37)	-
<b>Transactions with owners</b>						
New shares issued	20,21	663	-	(462)	(201)	-
Reduction of nominal share capital from £1 to £0.05p	21	(665)	-	-	665	-
Dividends paid	22	-	-	-	(421)	(421)
<b>Total transactions with owners</b>		(2)	-	(462)	43	(421)
<b>31 December 2019</b>		35	-	266	2,404	2,705
<b>Loss for the year</b>		-	-	-	(1,353)	(1,353)
<b>Other comprehensive (expense)</b>						
Actuarial gain/(loss) on retirement benefit schemes:						
Gain on plan assets	21	-	-	-	389	389
Increase in scheme liabilities	21	-	-	-	(492)	(492)
Change in tax rate	21	-	-	-	(1)	(1)
<b>Total comprehensive (expense)</b>		-	-	-	(1,457)	(1,457)
<b>Other movements</b>						
Transfer between reserves - investment property fair value movements <sup>1</sup>	20,21	-	-	(412)	412	-
Deferred tax on investment properties <sup>1</sup>	20,21	-	-	66	(66)	-
Change in tax rate - investment properties	20,21	-	-	(26)	26	-
Change in tax rate - operational land	20	-	-	(3)	-	(3)
<b>Total transfer to revaluation reserve</b>		-	-	(375)	372	(3)
<b>Transactions with owners</b>						
Dividends paid	22	-	-	-	(106)	(106)
<b>Total transactions with owners</b>		-	-	-	(106)	(106)
<b>31 December 2020</b>		35	-	(109)	1,213	1,139

<sup>1</sup> Movements in the valuation of investment properties recorded to the income statement are transferred to the revaluation reserve with the associated deferred tax liability, deferred tax rate change and the deferred tax rate change on revaluation of property, plant and equipment. Details of the amount of deferred tax are in Note 15.

# Heathrow Airport Limited

## Accounting policies for the year ended 31 December 2020

The principal accounting policies applied in the preparation of these financial statements of Heathrow Airport Limited (the 'Company') are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

### Statement of compliance

These financial statements have been prepared and approved by the directors in compliance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102').

### The Company

The Company is a private company limited by shares, incorporated in the United Kingdom and registered in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. The Company's immediate parent undertaking is Heathrow (AH) Limited. The parent company of Heathrow (AH) Limited is Heathrow SP Limited for which consolidated financial statements are prepared. The ultimate controlling undertaking for which consolidated financial statements is prepared is the FGP Topco Limited.

### Basis of accounting

The Company financial statements are prepared in accordance with FRS 102, which includes the amendments as a result of the triennial review 2017 and are presented on the basis of the historical cost convention, except for investment properties and derivative financial instruments which have been measured at fair value in accordance with FRS 102 and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

The financial statements are presented in Sterling and are rounded to the nearest million pounds (£m), except when otherwise noted.

The Company has adopted the following standards that are relevant to these financial statements instead of those of FRS 102:

- IFRS 9 'Financial Instruments' in accordance with FRS 102

The individual financial statements of Heathrow Airport Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

### Individual entity financial statements

The Company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of FGP Topco Limited and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2020. Its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. The financial statements present information about the Company as an individual entity only and not as a group.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions, therefore, the company has taken advantage of the following exemptions in its individual financial statements:

- the requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including:
  - categories of financial instruments,
  - items of income, expenses, gains or losses relating to financial instruments, and
  - exposure to and management of financial risks.
- the requirement from disclosing related party transactions with entities that are wholly-owned subsidiaries of the FGP Topco Limited Group
- from providing certain other disclosures regarding key management personnel

### Primary financial statements format

The primary financial statements are prepared in accordance with FRS 102, as it applies to the Company financial statements for the year ended 31 December 2020.

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.

## Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

**Primary financial statements format** *continued*

The column 'certain re-measurements' in the income statement contains the following items:

- (i) fair value gains and losses on investment property revaluations and disposals,
- (ii) derivative financial instruments,
- (iii) the associated tax impacts of the items in (i) and (ii), and
- (iv) the impact on deferred tax balances of known future changes in tax rates.

### Going concern

The Directors have prepared the financial information presented for Heathrow Airport 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.

The wider Heathrow group can raise finance through both Heathrow SP and Heathrow Finance Plc ('Heathrow Finance'). Whilst Heathrow SP operates as an independent securitised group, the Directors have considered the wider Heathrow group when assessing going concern. In assessing the going concern position the Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months from the date of this report and the corresponding impact on the covenants associated with financing arrangements. The Directors have also considered the period beyond 12 months to June 2022. Rapid deterioration in traffic and cash flows have put covenants at Heathrow Finance under strain. As a result, Heathrow Finance was likely to breach its RAR and ICR covenant tests in relation to the financial year ending 31 December 2020. However, management agreed a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which has resulted in no breaches to occur for this period.

Despite a much more challenging market backdrop given the COVID-19 pandemic, continued confidence and support for our credit enabled the wider Heathrow group to raise £2.5 billion of debt in 2020 across the capital structure in bond and loan format. A total of £1.7 billion was raised by Heathrow SP alone, £50 million was raised at Heathrow Finance and a £750 million capital injection was secured via ADI Finance 2. A further £2.1 billion of debt signed prior to 2020 was drawn down during the first half of the year. Consequently, Heathrow SP held cash of £3.5 billion as at 31 December 2020. Total debt maturity within Heathrow SP for the next 12 months is £1.5 billion. The wider Heathrow group has cash and committed facilities of circa. £3.9 billion available. No debt matures outside of Heathrow SP for the 12 months from the date of this report.

Taking this into account, Heathrow SP has sufficient liquidity to meet all its forecast cashflow needs until at least April 2022 even under the extreme scenario of no revenue, or well into 2023 under the base case cashflow forecast. This includes forecast operational costs, capital investment, debt service costs, debt maturities and repayments.

### Modelling the impact of COVID-19

The Directors have modelled future cash flows for the period beyond 12 months to June 2022 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations,
- forecast level of capital expenditure, and
- overall group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

In our assessment we have included the impacts of several important actions implemented in 2020 to reduce operating expenditure including temporarily consolidating our operation in fewer terminals, cancelling executive pay for a period, a company-wide pay reduction and bonus cancellation, freezing recruitment, removing all non-essential costs and adjusting our capital expenditure.

In modelling the impact of COVID-19, there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of our forecasting is therefore inherently subjective. As reported in the December 2020 Investor Report, the group's financial modelling under the base case scenario assumes passenger traffic for 2021 will decline 54% compared to 2019 to 37.1 million passengers (an increase of 40% from 22.1 million in 2020). As a result, group EBITDA in 2021 is also expected to reduce from £1,330 million to £493 million compared to £1,921 million.

To build the base case forecast of 37.1 million passengers in 2021 we assumed the implementation of a testing regime and a large-scale vaccine roll out during 2021 to drive the traffic increase compared to 2020. We then defined the stages of recovery, with key drivers being COVID-19 control, implementation of testing and then roll-out of a vaccine. The level of demand at each stage of recovery is overlaid using data on actual passenger numbers.

This is done at a granular level splitting into geographical markets and purpose of travel. Thereon, a timeline for moving between stages using latest information on testing and vaccine roll out and adjusting this for each of the geographical regions was taken into account. This approach is calibrated against information from airlines on planned schedules.

## Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

**Going concern** *continued*

### **Stress testing**

For the purpose of assessing going concern, management has stress tested this base case with a number of downturn scenarios in which the timing of the implementation of the testing regime, the rollout of vaccination programmes and the transition through the stages of recovery is elongated. This is reflected in further decreases in passenger numbers and a resulting drop in EBITDA and operating cashflow. Individually these potential risks are unlikely to require significant additional management actions to support the business. The combination of some or all of these potential risks, or if the impact of the pandemic is significantly more prolonged or severe than modelled by management, will result in management action being required to mitigate covenant breaches.

One such scenario represents a 'severe but plausible' downside for the period beyond 12 months to June 2022 which models 27 million passengers in 2021 and a 47% fall in EBITDA in 2021 compared to the base case, arising from further COVID-19 related disruption. The Directors, however, have a reasonable expectation that in this particular scenario there are operational and financial mitigations within the control of the group to mitigate against any debt default covenant breach at December 2021.

Due to the extreme level of uncertainty created by the global COVID-19 pandemic, the Directors have considered other plausible scenarios that could result in further reductions in passenger numbers arising from travel restrictions and reduced customer confidence in travel. Plausible scenarios below the 'severe but plausible' downside described above could cause the group to breach minimum levels required for covenant compliance. In this instance, management would need to undertake additional actions, including seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the group and the company's ability to continue as a going concern.

### **Conclusion**

Having had regard to both liquidity and debt covenants, and considering severe but plausible downsides, the Directors have concluded that there will be funds available to meet the group and the company's funding requirements for at least 12 months from the date of this Annual Report and Accounts, and that it is accordingly appropriate to adopt a going concern basis for the preparation of the financial statements

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

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry, which may result in the group needing to take further action, including seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the group and the company's ability to continue as a going concern.

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.

### **COVID-19**

The COVID-19 outbreak has developed rapidly during 2020. Measures taken to contain the virus have affected the wider economy and directly impacted on the Company's trading results (as detailed further in the Strategic report). The Company continued to operate where possible, in a safe and appropriate manner and strictly in accordance with both Government and the Civil Aviation Authorities health and safety guidelines and regulations. In light of the pandemic, the Company has performed a further review of its accounting policies and consider they remain appropriate. Some of the key points and clarifications resulting from this review are highlighted below:

The main impact to the trading results has been to the revenue and margin shortfall resulting from lockdown which ultimately resulted in not fulfilling performance obligations as efficiently as expected (or not at all) in relation to aviation income. The Company continues to recognise costs as incurred. Including, costs associated with the new working guidelines in respect of COVID-19 secure environment, providing such costs are expected to contribute to the satisfaction of the performance obligation. Costs that are not expected to contribute to the performance obligation are shown in the trading results.

The Company has utilised the Government's Job Retention Scheme. The grant income received has been recognised as an other income in line with FRS 102 and our accounting policy in the Income Statement.

The Company has reviewed any potential impairment indicators of both financial and non-financial assets, especially where operations have suffered due to COVID-19. As detailed in the Strategic report, the Company benefits from a wide customer base, which the Company considers provides greater financial security over the balances held within financial assets.

### **Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and consists primarily of:

# Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

**Revenue** *continued*

## **Aeronautical income**

- 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 (revenue) is invoiced monthly and in arrears at a point in time.

## **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 ORC's 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 various other services recognised at the time of delivery.
- Other invoiced sales: recognised on the performance of the service.

The Company 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, Long Stay, Business parking and Storage. The Company 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-rate case basis.

## **Other**

- Property letting rentals recognised on a straight-line basis over the term of the rental period.
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale.
- Rail ticket sales; where tickets are booked in advance the revenue is recognised when the ticket is first used. Where tickets are bought at a rail station, the revenue is recognised immediately at the point of sale.

## **Government Contributions**

On occasions, the Company may receive capital grants from public bodies to improve airport infrastructure considered to be in the best interest of the public.

Grants that do not impose specified future performance-related conditions are recorded as income on a systematic basis over the expected useful life of the asset. Where part of the grant is deferred it shall be recognised as deferred income.

## **Finance income**

Finance income is recognised when it is probable that the economic benefits will flow to the Company 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, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

## **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 or sale, are added to the cost of those assets, until the asset is complete and available for use. Such borrowing costs are capitalised whilst projects are in progress.

## Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

### **Borrowing costs** *continued*

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 capitalised is then charged to the income statement as a depreciation expense over the life of the relevant asset.

As a consequence of the impact of COVID-19, the Group have experienced interruption in the development and construction of some qualifying assets. Borrowing costs incurred during the period of suspension have not been considered to be a necessary cost of development and thus have been recognised in the income statement in the period in which they are incurred.

All other borrowing costs, including costs incurred in respect of the maintenance of the Company's credit setting, are recognised in the income statement in the year in which they are incurred.

### **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 Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the Company can demonstrate how the intangible asset created will generate future economic benefits;
- the Company has available the resources to complete the asset;
- the Company intends to complete that asset and has the future ability to sell or use the asset; and
- the development cost of the intangible asset can be measured reliably.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be held at cost less any accumulated amortisation and impairment. Amortisation begins when development is complete and the asset is ready for use.

This type of expenditure primarily relates to internally developed software and website projects for the Company 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.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. 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.

### **Tangible fixed assets**

#### **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 less any impairment. 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 commercial returns will flow to the Company. The Company 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.

### **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, in the belief that it is probable that expansion at Heathrow will be realised. As a result, the Group has started to capitalise eligible costs as 'assets in the course of construction'.



## Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

**Tangible fixed assets** *continued*

**Heathrow expansion** *continued*

The 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 assessing expansion costs, the Company has regard to principles of FRS 102 and considers October 2016 to be the point at which Expansion moved from the Research phase to the Development phase, and therefore development expenditure is capitalised in line with FRS 102, section 18. 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.

### **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:

<i>Terminal complexes</i>	<i>Useful lives</i>
Terminal building, pier and satellite structures	20 - 60 years
Terminal fixtures and fittings	5 - 20 years
<i>Airport plant and equipment:</i>	
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
<i>Airport transit systems</i>	
Rolling stock	20
years	
Track	50 years
<i>Airfields</i>	
Runway surfaces	10 - 15 years
Runway bases	100 years
Taxiways and aprons	50 years
<i>Rail</i>	
Rolling stock	8 - 40 years
Tunnels	100 years
Track metalwork	5 - 10 years
Track bases	50 years
Signals and electrification work	40 years
<i>Plant and equipment</i>	
Motor vehicles	4 - 8 years
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
<i>Other land and buildings</i>	
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. 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. The impact of historical climate related incidents indicate that any financial impact on physical assets, including adapting to use of Sustainable Aviation Fuels ("SAFs") can be addressed by the existing capital programme.

### **Impairment of assets**

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. 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

# Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

**Tangible fixed assets** *continued*

**Impairment of assets** *continued*

rate that reflects current market assessments of the time value of money and the risks specific to the asset. When performing this review, Heathrow is considered to form one cash generating unit (CGU) based on the interdependence of the airport cash flows and the functional organisational structure by which the airport is managed.

## **Investment properties**

Investment property, which is 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 valuations when the fair value can be reliably measured. 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.

The revaluation reserve includes historic gains and losses on investment properties. Future gains and losses will be recognised in the income statement and transferred to the revaluation reserve. The gains and losses will remain in the revaluation reserve as a matter of course and will only be transferred to the profit and loss reserve as part of a capital reconstruction or on disposal of the investment property.

## **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### **Company as a lessee**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **Company as a lessor**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and with the exception of investment properties discussed above, the assets are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

## **Investment in subsidiary**

Investments are held at cost less impairment and reviewed for impairment if there are indications that the carrying value may not be recoverable.

## **Inventories**

Raw materials and consumables consist of engineering spares and other consumable stores. Cost is calculated using the weighted average method. These are valued at the lower of cost and estimated selling price less costs to complete and sell.

## **Deferred income**

Amounts received prior to the delivery of goods and services are recorded as deferred income and released to the income statement as the services are delivered or when the goods are delivered.

## **Provisions**

Provisions are recognised when the Company 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.

# Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

## **Provisions** *continued*

### **Restructuring**

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

### **Home loss payment**

A home loss payments provision is recognised where, an obligation arises during the year, as a result of a past event. The home loss payment provision is in respect of historic property purchases and related expenditures created in 2016 specifically in respect of Heathrow Expansion, following the Government's decision in October 2016.

## **Financial instruments**

The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2020. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited for the year ended 31 December 2020.

## **Recognition and derecognition**

Financial assets and financial liabilities are recognised when the Company 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**

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 and 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.

### **Financial assets at fair value through profit and 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.

### **Financial assets at fair value through other comprehensive income (FVOCI)**

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell, and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

# Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

## **Financial instruments** *continued*

### **Impairment of financial assets**

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables 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 Company first identifying a credit loss event. Instead the Company 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 instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'),
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'), and
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'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 instrument.

### **Trade and other receivables**

Trade receivables, which generally have 14-day terms, are initially recognised and carried at their transaction price. Balances are written off when the probability of recovery is remote.

The Company 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 Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The Company assesses 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 11 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 Company 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.

### **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).

### **Cash and cash equivalents**

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less. Short-term deposits with an original maturity of over three months are shown within current trade and other receivables.

The Company 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 section 7 of FRS 102, 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.

## Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

### **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.

### **Classification and measurement of financial liabilities**

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit and 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 or finance income.

### **Borrowings**

Borrowings 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. 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.

Borrowings from Company undertakings include the balance of the Borrower Loan Agreements ('BLAs') payable by the Company to Heathrow Funding Limited. Advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by Heathrow Funding Limited. The advances are carried at amortised cost with the interest expense recognised using the effective interest method. The nominal amount of the index-linked borrowings is accreted for the RPI component recognised within interest payable 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.

### **Financial liabilities and reserves**

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 of other liabilities.

### **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.

### **Derivative financial instruments**

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. Derivatives includes interest rate swaps, index-linked swaps and foreign exchange contracts.

Changes in their fair value of derivatives are recognised in profit and loss.

### **Novation of financial instruments**

Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Group are transferred at fair value prevailing on that date.

### **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 Company's derivatives is updated monthly based on current market data.

## Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

### **Shared Services Agreement ('SSA')**

All employees of the Company 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 Company'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 Company 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 Company 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 Company incurs the cost of people which are contractually employed by LHR Airports Limited but provide services to the operation of the airport. 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.

### **Retirement benefit obligations**

LHR Airports Limited has both defined contribution and defined benefit pension schemes. LHR Airports Limited is an indirect subsidiary of HAH Group (the 'Group'), is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post-Retirement Medical Benefits ('PRM') scheme.

Following a decision to re-assess the Company's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Company, should act as the sponsor (since 2015) in relation to these schemes. As a result, the Company now recognises retirement benefit obligations within its financial statements.

Obligations for contributions to the defined contribution pension scheme are recognised as an expense in the income statement as incurred.

The cost of providing benefits under the defined benefit pension scheme is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When the benefit of a plan is changed or when a plan is curtailed, the resulting change that related to past service or the gain or loss on curtailment is recognised immediately in the Statement of profit or loss. When a settlement occurs, the obligation and related plan asset are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement occurs. Significant events which give rise to curtailment and settlement events are those that result in a material impact to the defined benefit obligation or which result in a significant change in number of scheme members.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

The Company 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 total for each plan of 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. The value of a net defined benefit pension asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in future contributions.

### **Exceptional items**

The Company 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 Company's result between periods. Exceptional items include business transformation costs and Heathrow expansion impairment write downs which are material and merit separate presentation because of their size and nature. They are not expected to reoccur.

## Heathrow Airport Limited

**Accounting policies** for the year ended 31 December 2020 *continued*

### **Current and deferred taxation**

The tax charge/(credit) for the year comprises current and deferred tax and is recognised in the statement of comprehensive income.

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 balance sheet 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% (2019: 19%) for the year.

In accordance with FRS 102 Section 29 timing differences, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax assets and liabilities are not discounted.

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse.

### **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.

### **Preference shares**

Preference shares are classified as liabilities when in substance the shares and the related dividends have terms similar to liabilities and not share capital. Features that indicate that presentation as a liability is appropriate include dividends that are payable for a fixed or determinable amount at a fixed or determinable future date and where redemption is at a predetermined amount and date or at the option of the preference shareholder and not at the discretion of the Company. Where presentation as a liability is considered appropriate, the associated dividend expense is shown within interest in the income statement.

### **Dividend distribution**

A dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the shareholder's right to receive payment of the dividend is established.

### **Foreign currency**

The Company financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency applying the spot exchange rate 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### **Related party disclosures**

The Company has chosen to take exemption under the terms of FRS 102 from disclosing related party transactions with entities that are wholly-owned subsidiaries of the FGP Topco Limited Group. Under FRS 102 it is also exempt from providing certain other disclosures regarding key management personnel.

### **Cash flow statement**

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales.

The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2020. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2020 (intermediate parent entity and the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of accounting standard FRS 102 (1.12 (b) and (e)).

# Heathrow Airport Limited

## Significant accounting judgements and estimates for the year ended 31 December 2020

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 COVID-19 on going concern was considered in some detail. Further information can be found within the 'Basis of preparation' section.

#### **Capitalisation**

Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Judgement has been exercised in the year including in relation to:

- the assessment of assets in the course of construction, including expansion costs;
- assessing the useful economic life of an asset; and
- 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 FRS 102 Section 18 are considered and applied.

Assets in the course of construction for the expansion of Heathrow had a net book value of £508 million as at 31 December 2020. 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 and the impact of climate change on long term passenger demand and have concluded that expansion remains probable. In October, Heathrow submitted an appeal to the Supreme Court and, in December, the Supreme Court unanimously ruled the ANPS as lawful and legal Government policy. The verdict confirmed the Government had taken into account the Paris Climate Change Agreement as part of the policy, and that this would be considered as part of the robust planning processes in the UK. Heathrow has already committed to net zero and this ruling recognises the robust planning process that will require us to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology. This is the right outcome for the country, which will allow Global Britain to become a reality and Heathrow remains committed to a long-term sustainable expansion and considers it a probable outcome based on experience to date. As passenger numbers recover, the immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, government, airline customers and regulators on our next steps. These 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. Expansion remains consistent with the commitments we are making around climate change as detailed in the TCFD section on pages 64-71. If expansion were deemed not probable at a future date, then it is expected that the asset would be impaired in full.

#### **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. 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 most 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.

#### **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 Heathrow Airport Limited in the 2020 financial statements based on an assessment of which entity is principal in relation to these transactions. This judgement is described in the accounting policies and is based on the balance of risks and rewards between group companies.

#### **Lease classification**

A lease contract is classified as an operating or a finance lease based on the substance of the contract and whether the Company or the lessor have the substantial risks and benefits incidental to the ownership of the leased asset.

The Company has a lease agreement with UK Power Networks Services Limited ('UKPNS' / 'Lessor') relating to the electricity distribution network at Heathrow. The lease expires in 2083. The Company has determined this arrangement to be an operating lease rather than a finance lease under section 20 of FRS 102. In this arrangement, the typical primary indicators of a finance lease under section 20 such as the lease term being for the major part of the economic life of the asset, the present value of the minimum lease payment amounts being substantially all of the fair value of the leased asset, appear to be met, largely due to the duration of the agreement.



# Heathrow Airport Limited

## Significant accounting judgements and estimates for the year ended 31 December 2020

### ***Lease classification continued***

The substance of the agreement however results in significant risks and rewards associated with the ownership of electrical distribution network remaining with UKPNS. Other features within the contract that are more relevant in this lease determination include that the obligation to operate, maintain, insure and repair rests with the lessor rather than the Company. Accordingly, management believe an operating lease classification to be appropriate.

### ***Investment properties***

Investment properties are fair valued by CBRE Limited, Chartered Surveyors. The valuations are prepared in consideration of FRS 102 and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. 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. This market evidence also considers planned transactions and use of the property (for example the future expansion of Heathrow). Independent valuations are obtained for all investment properties.

Judgement is exercised in adjusting cash flows to reflect what a 'Reasonably Efficient Operator' would be able to achieve outside of the economies of scale achieved by Heathrow when operating a portfolio of car parks. These judgements are needed so that each car park can be valued on an individual basis and include judgements on the "Fair Maintainable Turnover" that would be achievable and a determination on the allocation of business rates and operating cost inefficiencies.

### ***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. 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 in respect to the car park revenue, represents rental income for the use of the space and service provided.

### ***Exceptional items***

The Company has separately presented certain material one-off 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 Company's result between periods. Judgement is required in determining whether an item should be classified as an exceptional item or included within underlying results. In the current year business transformation costs and asset impairment and write-off charges, as a consequence of management decisions made in response to the COVID-19 virus and the delay to expansion (following the announcement by the Court of Appeal regarding the Judicial Review into expansion), have been disclosed as exceptional items. Further details are disclosed in the accounting policy above and in Note 3.

## **Key sources of estimation uncertainty**

### ***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 7 to the accounts.

### ***Retirement benefit obligations***

Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at the period end and charges to the income statement. The assumptions have been determined in consultation with the Company'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 Company'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 Company pension scheme is recorded as a net actuarial gain or loss and is reflected in the statement of comprehensive income.

## Heathrow Airport Limited

**Significant accounting judgements and estimates** for the year ended 31 December 2020

### ***Retirement benefit obligations continued***

The triennial Trustee valuation of the scheme was completed during 2019 and included updates to mortality rates as well as other key demographic indicators, which have been used to inform management assumptions used at 31 December 2020.

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 16 of the Financial Statements.

# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020

## 1 Revenue

The Company is organised into business units according to the nature of the services provided to Airport users. All revenue arises in the United Kingdom and is derived from Aeronautical and commercial operations within the Airport and its boundaries.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
<b>Revenue</b>		
Aeronautical		
Movement charges <sup>1</sup>	244	549
Parking charges	62	74
Passenger charges <sup>1</sup>	341	1,208
Total aeronautical revenue	647	1,831
Other regulated charges	118	239
Retail	234	722
Other revenue	209	184
<b>Total revenue</b>	<b>1,208</b>	<b>2,976</b>
<b>Adjusted EBITDA</b>		
Total adjusted EBITDA	254	1,828
<b>Reconciliation to statutory information:</b>		
Depreciation and amortisation	(774)	(736)
<b>Operating (loss)/profit (before certain re-measurements and exceptional items)</b>	<b>(520)</b>	<b>1,092</b>
Exceptional items	(182)	-
Fair value (loss)/gain on investment properties (certain re-measurements)	(412)	43
<b>Operating (loss)/profit</b>	<b>(1,114)</b>	<b>1,135</b>
Finance income	394	206
Finance costs	(809)	(522)
<b>(Loss)/profit before tax</b>	<b>(1,529)</b>	<b>819</b>
<b>Taxation credit/(charge)</b>	<b>176</b>	<b>(188)</b>
<b>(Loss)/profit for the year</b>	<b>(1,353)</b>	<b>631</b>

<sup>1</sup>In 2019, Movement charges and passenger charges were referred to as landing and departure charges. Until 2019, landing charges were levied for substantially all aircraft (with certain diplomatic and other flights being exempted). From 2020, movement charges are now levied instead of landing charges. The charge per movement is around half of what the landing charges were previously, however is applied to each aircraft on both take-off and landing.

Revenue of £333 million (2019: £882 million) was derived from a single external customer and has been included within the aeronautical revenue.

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 2 Operating costs

Operating costs comprise:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Employment		
Wages and salaries	264	346
Social security	27	35
Other pension costs	38	41
Other staff related costs	18	27
Own staff costs capitalised	(37)	(82)
	310	367
Operational	244	290
Maintenance	130	163
Rates	114	116
Utilities	87	94
Other	69	118
<b>Operating costs before depreciation and amortisation</b>	<b>954</b>	<b>1,148</b>
Depreciation and amortisation		
Property, plant and equipment	730	693
Intangible assets	44	43
	774	736
<b>Operating costs before exceptional items</b>	<b>1,728</b>	<b>1,884</b>
Exceptional items (Note 3)	182	-
<b>Total operating costs<sup>1</sup></b>	<b>1,910</b>	<b>1,884</b>

<sup>1</sup> Total operating costs include expenditure on research and development of £ nil (2019: £2 million)

### Rentals under operating leases

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
<i>Operating costs include:</i>		
Land and buildings <sup>1</sup>	14	14
Other <sup>2</sup>	33	33
<b>Total rentals under operating leases</b>	<b>47</b>	<b>47</b>

<sup>1</sup> The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The amounts above are stated net of discounts.

<sup>2</sup> A significant portion of the operating rental costs relates to electricity supply equipment at the airport leased on agreement with UK Power Networks Services Limited ('UKPNS').

### Auditor's remuneration

Audit fees and non-audit fees for the SP Group and FGP Topco Group for the current and preceding financial years were borne by Heathrow Airport Limited.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
<b>Fees payable to the Company's auditor for the annual audit of the:</b>		
Company's ultimate parent	0.1	0.1
Company's subsidiaries <sup>1</sup>	0.7	0.4
<b>Total audit fees</b>	<b>0.8</b>	<b>0.5</b>

### Fees payable to the Company's auditor and their associates for other services specific to the Group

Audit related assurance services	0.5	0.5
Other assurance services	0.1	0.1
Other services	-	0.1
<b>Total non-audit fees</b>	<b>0.6</b>	<b>0.7</b>
<b>Total fees</b>	<b>1.4</b>	<b>1.2</b>

<sup>1</sup> Fees payable to the Company's auditor for the audit of the Company's annual accounts were £108,000 (2019: £65,000).

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 2 Operating costs *continued*

#### Employee information

The Company has a monthly average of 7,197 employees (2019: 7,641) who are all employed to provide services to the operation of the airport. The directors note that although the employees remain legally employed by LHR Airports Limited, the Company makes all employment decisions. Consequently, employee numbers for those providing services to the operation of the airport are reported in the financial statement of the Company and not in the financial statements of LHR Airports Limited.

<i>By activity</i>	<b>Year ended 31 December 2020</b>	Year ended 31 December 2019
Operations	<b>5,113</b>	5,116
Support services	<b>2,084</b>	2,525
<b>Total</b>	<b>7,197</b>	7,641

#### Directors' remuneration

	<b>Year ended 31 December 2020 £'000</b>	Year ended 31 December 2019 £'000
Aggregate emoluments <sup>1</sup>	<b>3,259</b>	5,178
Value of Company pension contributions	<b>17</b>	30
	<b>3,276</b>	5,208

<sup>1</sup> For the year ended 31 December 2020 salaries and benefits include salaries, allowances, Directors' fees, Company pension contributions, accrued bonuses and amounts payable under long-term incentive plans ('LTIP').

John Holland-Kaye and Javier Echave were directors of a number of companies within the Heathrow Airport Holdings Limited Group, including LHR Airports Limited, during the year. Their remuneration for the year ended 31 December 2020 was disclosed in the financial statements of Heathrow Airport Holdings Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided and therefore their remuneration is not included in the numbers above.

The directors participate in the Heathrow Long-Term Incentive Plan designed to reward them for the success of Heathrow over a three-year period. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on RAB and other operational targets over a three-year period. There were no annual bonuses associated with 2020 performance as the Heathrow Bonus Plan was not launched in 2020 due to the impact of COVID-19.

	<b>Year ended 31 December 2020 £'000</b>	Year ended 31 December 2019 £'000
<b>Highest paid director's remuneration</b>		
Aggregate emoluments <sup>1</sup>	<b>603</b>	1,067

<sup>1</sup> For the year ended 31 December 2020 salaries and benefits include salaries, allowances, directors' fees, Company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

The highest paid director participates in the Heathrow Long-Term Incentive Plan designed to reward them for the success of Heathrow over a three-year period. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on RAB and other operational targets over a three-year period. The highest paid Director's emoluments in 2020 includes £156,000 in respect of the 2018 three-year plan after certain performance targets were met over the three years from 2018 to 2020, which will be paid in 2021.

	<b>Year ended 31 December 2020</b>	Year ended 31 December 2019
Number of directors who are members of a:		
Defined contribution pension scheme	<b>4</b>	4

No directors (2019: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Limited Group and no shares (2019: none) were received or became receivable under long-term incentive plans.

# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020 *continued*

## 3 Exceptional items

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Business transformation	(90)	-
Asset impairment and write-off	(92)	-
<b>Total operating loss on exceptional items</b>	<b>(182)</b>	-
Tax credit on exceptional items	17	-
<b>Loss on exceptional items after tax</b>	<b>(165)</b>	-

### Business transformation

As a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Company has undergone a business transformation in order to simplify operations and reduce costs. Following this review the Company incurred £90 million of exceptional charges, consisting of £140 million of people-related costs, principally redundancy, partially offset by a net £50 million credit associated with corresponding pension settlements and curtailments – refer to Note 16 for further details. £13 million relating to the business transformation programme is included within provisions at 31 December 2020 and is expected to be settled within the next financial year.

### Asset impairment and write-off

As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Company has recognised a non-cash impairment and write-off charge of £92 million on assets in the course of construction. While the vast majority of expansion assets remain on the balance sheet at year-end, a number of partially complete projects have been placed on hold, some of these projects are unlikely to be re-started in the foreseeable future or are unlikely to be restarted without material changes to the original proposal design, £82 million of costs incurred to date on these projects have been impaired. In addition, £10 million of costs which relates to forecast re-work, which will be required as a result of the estimated delay to the Expansion programme, have been impaired.

## 4 Financing

### (i) Net finance costs before certain re-measurements

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
	Note	
<b>Finance income</b>		
Interest receivable from group undertakings <sup>1</sup>	382	197
Interest on deposits	12	9
	<b>394</b>	<b>206</b>
<b>Finance costs</b>		
Interest payable to group undertakings <sup>2</sup>	(641)	(624)
Interest on bank borrowings	(39)	(26)
Facility fees and other charges	(14)	(10)
Net pension finance costs	(1)	(1)
	<b>(695)</b>	<b>(661)</b>
Less: capitalised borrowing costs <sup>3</sup>	6 33	44
	<b>(662)</b>	<b>(617)</b>
<b>Net finance costs before certain re-measurements</b>	<b>(268)</b>	<b>(411)</b>

<sup>1</sup> These amounts relate primarily to interest accrued on balances due from Heathrow (SP) Limited (Note13).

<sup>2</sup> These amounts relate mainly to interest due on the Borrower Loan Agreement ('BLA') advances and back-to-back derivatives not in hedge relationship with Heathrow Funding Limited.

<sup>3</sup> 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 3.82% (2019: 4.96%) to expenditure incurred on such assets.

### (ii) Fair value (loss)/gain on financial instruments

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Interest rate swaps	(65)	(15)
Index-linked swaps <sup>1</sup>	(82)	112
FX re-translation of foreign exchange contracts	-	(2)
<b>Fair value (loss)/gain on financial instruments</b>	<b>(147)</b>	<b>95</b>
<b>Net finance costs</b>	<b>(415)</b>	<b>(316)</b>

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 5 Tax credit/(charge)

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
UK corporation tax		
Current tax credit/(charge) at 19% (2019: 19%)	100	(94)
Group relief payable	-	(53)
Over provision in respect of prior years	-	7
Deferred tax		
Current year credit/(charge)	122	(47)
Prior year credit/(charge)	6	(1)
Change in tax rate	(52)	-
<b>Taxation credit/(charge) for the year</b>	<b>176</b>	<b>(188)</b>

The tax credit/(charge) on the Company's (loss)/profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the Company for the reasons as set out in the following reconciliation:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
<b>(Loss)/profit before tax</b>	<b>(1,529)</b>	<b>819</b>
<b>Reconciliation of the tax charge</b>		
Tax calculated at the UK statutory rate of 19% (2019: 19%)	291	(156)
Adjustments in respect of current income tax of previous years	-	7
Adjustments in respect of deferred income tax of previous years	6	(1)
Net non-deductible expenses	(57)	(43)
Change in tax rate	(52)	5
Difference in deferred tax movements for investment properties	(12)	-
<b>Taxation credit/(charge) for the year</b>	<b>176</b>	<b>(188)</b>

The total tax credit recognised for the year ended 31 December 2020 was £176 million (2019: £188 million tax charge) on a loss before tax for the year ended 31 December 2020 of £1,529 million (2019: profit before tax £819 million).

The total tax credit before certain re-measurements and exceptional items for the year ended 31 December 2020 was £111 million (2019: £164 million tax charge). Based on a loss before tax and certain re-measurements and exceptional items of £788 million (2019: profit before tax £681 million), this results in an effective tax rate of 14.1% (2019: 24.1%). The tax credit for 2020 is less than implied by the statutory rate of 19% (2019: 19%) primarily due to non-deductible expenses and depreciation on non-qualifying assets, reducing the tax credit for the year (2019: primarily due to non-deductible expenses increasing the tax charge for the year).

In addition, there was an £100 million tax credit (2019: £24 million tax credit) arising from fair value losses on investment property revaluations and fair value losses on financial instruments, along with a £52 million tax charge associated with the impact from the UK corporation tax rate remaining at 19% on deferred tax balances and a £17 million tax credit on exceptional items. The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the government in Finance Act 2020. The headline UK corporation tax rate of 19% was maintained and given Royal Assent on 22 July 2020. 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 Company has made significant losses during the period ended 31 December 2020. In accordance with updated HMRC guidance, the Company has made a claim to request repayment of quarterly instalment payments made in relation to the period ended 31 December 2019 and payments of £73 million were returned to Heathrow Airport Ltd in September 2020 by HMRC, resulting in a net cash receipt from HMRC for the year of £67 million (2019: cash payment of £98 million). In 2021 the Company intends to submit a loss carry back claim to carry back all trading losses arising in the Company in the 2020 period against 2019 taxable profits. The impact of the estimated loss carry back claim (a tax credit of £100 million) is reflected in the tax results and balance sheet position of the Company as at 31 December 2020.

Finance Act 2018 implemented a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property will be available where the construction contract is entered into on or after 29 October 2018. Relief will be provided on eligible construction costs at an annual rate of 2% on a straight-line basis, effectively giving tax relief over a 50-year period. This relief was increased to 3% from 1 April 2020 in Finance Act 2020. Heathrow is likely to benefit from tax relief in future years on expenditure which was not eligible under the previous rules. The increase from 2% to 3% was enacted in July 2020. At the balance sheet date, no material SBA-qualifying assets had been identified and brought into use. Other than these changes, there are no items which would materially affect the future tax charge.

# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020 *continued*

## 6 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
<b>Cost</b>								
1 January 2019		11,649	1,953	1,140	229	1,434	1,116	17,521
Additions		-	-	-	-	-	850	850
Borrowing costs capitalised	4	-	-	-	-	-	44	44
Disposals		(245)	(65)	(118)	(9)	(50)	-	(487)
Transfer to intangible assets	8	-	-	-	-	-	(44)	(44)
Transfer to completed assets		532	127	(27)	53	10	(695)	-
<b>31 December 2019</b>		<b>11,936</b>	<b>2,015</b>	<b>995</b>	<b>273</b>	<b>1,394</b>	<b>1,271</b>	<b>17,884</b>
Additions		-	-	-	-	-	414	414
Borrowing costs capitalised	4	-	-	-	-	-	33	33
Disposals		(16)	(8)	(25)	-	(1)	-	(50)
Capital write off	3	-	-	-	-	-	(92)	(92)
Transfer from investment properties	7	-	-	-	1	-	-	1
Transfer from intangible	8	-	-	-	-	-	12	12
Transfer to completed assets		286	59	90	21	13	(469)	-
Transfer to intangible	8	-	-	-	-	-	(64)	(64)
<b>31 December 2020</b>		<b>12,206</b>	<b>2,066</b>	<b>1,060</b>	<b>295</b>	<b>1,406</b>	<b>1,105</b>	<b>18,138</b>
<b>Accumulated depreciation</b>								
1 January 2019		(4,396)	(506)	(525)	(77)	(613)	-	(6,117)
Depreciation charge		(492)	(61)	(67)	(19)	(54)	-	(693)
Disposals		245	65	118	9	50	-	487
<b>31 December 2019</b>		<b>(4,643)</b>	<b>(502)</b>	<b>(474)</b>	<b>(87)</b>	<b>(617)</b>	-	<b>(6,323)</b>
Depreciation charge		(495)	(57)	(118)	(20)	(40)	-	(730)
Disposals		16	8	25	-	1	-	50
<b>31 December 2020</b>		<b>(5,122)</b>	<b>(551)</b>	<b>(567)</b>	<b>(107)</b>	<b>(656)</b>	-	<b>(7,003)</b>
<b>Net book value</b>								
<b>31 December 2020</b>		<b>7,084</b>	<b>1,515</b>	<b>493</b>	<b>188</b>	<b>750</b>	<b>1,105</b>	<b>11,135</b>
31 December 2019		7,293	1,513	521	186	777	1,271	11,561

A review of Nil Net book value assets was performed in the year which resulted in significant disposals at Nil Net book value. Capex commitments are included in Note 23.

### Other land and buildings

Other land and buildings are freehold except for leasehold properties which is presented in Note 8. Refer to the accounting policy for the changes in the accounting policies.

### 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 £20 million for the year ended 31 December 2020, 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 2020 includes accelerated depreciation on The Compass Centre and Starlight Point of £4.1m. Depreciation in 2019 includes accelerated depreciation on Heathrow Express rolling stock (£28 million accelerated depreciation in rail assets) and the Tracked Transit System (£3 million accelerated depreciation in terminal complexes) of £31 million.

### Borrowing costs capitalised

During the year ended 31 December 2020, borrowing costs of £33 million were capitalised (2019: £44 million). Capitalised borrowing costs were calculated by applying an average interest rate of 3.82% (2019: 4.96%) to expenditure incurred on qualifying assets. A tax deduction of £33 million (2019: £44 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.



# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020 *continued*

## 6 Property, plant and equipment *continued*

### Regulatory asset base (RAB)

RAB at 31 December 2020 was £16,492 million (2019: 16,598 million).

## 7 Investment properties

	Car park £m	Airport operations £m	Land and other £m	Total £m
<b>Valuation</b>				
<b>1 January 2019</b>	<b>1,326</b>	<b>564</b>	<b>582</b>	<b>2,472</b>
Additions	-	-	7	7
Fair value movements	4	14	25	43
<b>31 December 2019</b>	<b>1,330</b>	<b>578</b>	<b>614</b>	<b>2,522</b>
Additions	-	-	9	9
Transfers to property, plant and equipment	-	-	(1)	(1)
Fair value movements	(313)	(58)	(41)	(412)
<b>31 December 2020</b>	<b>1,017</b>	<b>520</b>	<b>581</b>	<b>2,118</b>

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Valuation</b>				
<b>1 January 2019</b>	-	<b>1,271</b>	<b>1,201</b>	<b>2,472</b>
Additions	-	7	-	7
Fair value movements	-	30	13	43
<b>31 December 2019</b>	-	<b>1,308</b>	<b>1,214</b>	<b>2,522</b>
Additions	-	9	-	9
Transfers to property, plant and equipment	-	(1)	-	(1)
Fair value movements	-	(73)	(339)	(412)
<b>31 December 2020</b>	-	<b>1,243</b>	<b>875</b>	<b>2,118</b>

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

Management conducts a detailed review of each property to ensure the 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, non-operational land valuations and residential properties were generated by a market approach involving similar observable transactions along with land value reversion whilst the other assets were valued using the capitalised income approach incorporating net initial and equivalent yield. Some of the valuation incorporated rent free and void periods where relevant in order to determine the most reasonable valuation.

Level 3 inputs are based on unobservable inputs which relate to discounted cash flow technique using an appropriate asset discount rate including growth rates for the relevant revenues and costs. Most of this classification is made up of car parks which accounts for 89% (2019: 91%) 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.

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 7 Investment properties *continued*

The investment property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 68% (2019: 71%) of the fair value of the investment property portfolio at 31 December 2020. The valuation of maintenance hangars is largely based on long term contractual terms and are not occupied by the group. They are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

The investment property asset class balance consists of 48% (2019: 53%) car parks, 25% (2019: 23%) airport operations and 27% (2019: 24%) land and others. Level 1 to 3 is split according to the following percentiles respectively: nil (2019: nil%), 59% (2019: 52%) and 41% (2019: 48%).

The sensitivities analysis below relates specifically to fair value movements in car parks within the level 3 valuation that comprises of 92% (2019: 31%) 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
<b>Car parks – Base revenue</b>	
+10.0% pa	38
-10.0% pa	(38)
<b>Car parks – Revenue growth</b>	
+1.0% pa	140
-1.0% pa	(126)
<b>Car parks – Operating costs growth</b>	
+1.0% pa	(41)
-1.0% pa	37

### Historical cost

The historical cost of investment properties and land held for development as at 31 December 2020 was £724 million (2019: £690 million).

### 8 Intangible assets

	£m
<b>Cost</b>	
1 January 2019	353
Transfers from property, plant and equipment	44
Disposals	(88)
<b>31 December 2019</b>	<b>309</b>
Transfers from property, plant and equipment	51
Disposals	(3)
<b>31 December 2020</b>	<b>357</b>
<b>Accumulated amortisation</b>	
1 January 2019	(180)
Charge for the year	(43)
Disposals	88
<b>31 December 2019</b>	<b>(135)</b>
Charge for the year	(44)
Disposals	3
<b>31 December 2020</b>	<b>(176)</b>
<b>Net book value</b>	
<b>31 December 2020</b>	<b>181</b>
31 December 2019	174

All intangible assets relate to capitalised computer 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.

# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020 *continued*

## 9 Investment in subsidiary

	2020 £m	2019 £m
Cost at 1 January and 31 December	42	42

Subsidiary	Nature of business	% of share capital held	Class of share
			Ordinary shares of £1 each
<b>Heathrow Express Operating Company Limited</b>	Railway Operator	100	

Heathrow Express Operating Company Limited, a company registered in England and Wales, operates the express rail service between Heathrow and central London. The registered address of the company is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

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 7.5%. From the review of the position at 31 December 2020, management concluded that there is no impairment in the investments held.

For the carrying value of the investment to equal the recoverable amount, with all other variables remaining unchanged: the implied discount rate would need to increase to 9.3%. The movement of the discount rate to 9.3% is not reasonably possible.

## 10 Inventories

	31 December 2020 £m	31 December 2019 £m
Raw materials and consumables	14	13

The total amount of inventories consumed in the year was £7 million (2019: £5 million). There is no material difference between the statement of financial position value of inventories and their replacement cost.

## 11 Trade and other receivables

	31 December 2020 £m	31 December 2019 £m
<b>Non-current</b>		
Amounts owed by group undertakings – interest bearing <sup>1</sup>	2,026	2,483
Less: provision for impairment	(6)	(7)
Prepaid debt fees <sup>2</sup>	1	3
Prepayments	13	13
Other receivables	4	-
	<b>2,038</b>	<b>2,492</b>
<b>Current</b>		
Trade receivables	81	132
Accrued income <sup>3</sup>	31	46
Total trade receivables	112	178
Less: provision for impairment	(17)	(5)
Trade receivables after provision for impairment	95	173
Prepayments <sup>4</sup>	350	34
Interest receivable from group undertakings	239	195
Other receivables	37	28
	<b>721</b>	<b>430</b>
<b>Total trade and other receivables</b>	<b>2,759</b>	<b>2,922</b>

<sup>1</sup> Amounts owed by group – interest bearing represents a loan receivable from an entity within the wholly-owned group. It has a fixed interest rate of 7.57% pa and is repayable on 20 August 2021 and a promissory note at 5.37% which matures on 1 November 2021.

<sup>2</sup> Prepaid debt fees largely relate to financing fees paid on facilities not yet drawn and are amortised over the term of the facility.

<sup>3</sup> Accrued income is net of any amounts received in advance from customers. The balance at 31 December 2019 includes the provision for the iH7 Deal and the Aero Growth Incentive Deal.

<sup>4</sup> The increase in trade and other receivables includes £258 million relating to prepayments made to suppliers at 31 December 2020. The total includes a £60 million payment to HMRC in relation to Heathrow's payroll taxes payable to HMRC during 2021. These prepayments were made in order to manage banking covenant ratios.

The 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.

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 11 Trade and other receivables *continued*

As at 31 December 2020, trade receivables of £57 million (2019: £97 million) were fully performing. Trade receivables of £23 million (2019: £35 million) were past due. These relate to a number of independent customers for whom there is no recent history of default. Movement in the provision for impairment of trade receivables is as follows:

	£m
1 January 2019	4
Impairment of trade receivables	1
<b>31 December 2019</b>	<b>5</b>
Impairment of trade receivables	12
<b>31 December 2020</b>	<b>17</b>

As at 31 December 2020, trade receivables were considered for impairment under IFRS 9 resulting in an additional provision of £12 million (2019: £1 million). During the year ended 31 December 2020, £1 million (2019: nil) of trade receivables were written off. The individual impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included within 'operating costs' in the consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery, with additional impairment for forward looking ECL and probable default.

IFRS 9 also required the Company to recognise a provision for impairment against amounts owed by group undertakings for which £6 million (2019: £7 million) was provided. These amounts are expected to be fully recoverable.

The Company is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling.

### 12 Cash and cash equivalents and term deposits

	31 December 2020 £m	31 December 2019 £m
Cash at bank and in hand	14	84
Short-term deposits	256	728
Cash and cash equivalents	270	812
Term deposits	3,236	725
<b>Cash and cash equivalents and term deposits</b>	<b>3,506</b>	<b>1,537</b>

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. Heathrow Airport Limited holds investments in term deposits, which have an original maturity of more than three months. The increase in term deposits is the result of draw down on existing debt and utilisation of new financing raised in the year.

### 13 Borrowings

	31 December 2020 £m	31 December 2019 £m
<b>Current</b>		
<b>Secured</b>		
Bank loans	4	4
Class A1 term loan due 2021	418	-
BLA advances from Heathrow Funding Limited	1,128	400
<b>Total current (excluding interest payable)</b>	<b>1,550</b>	<b>404</b>
Interest payable – external	9	7
Interest payable – owed to group undertakings	263	218
<b>Total current</b>	<b>1,822</b>	<b>629</b>
<b>Non-current</b>		
<b>Secured</b>		
BLA advances from Heathrow Funding Limited	12,583	11,740
Bank loans	4	8
Revolving credit facilities	1,150	-
Class A1 term loan due 2020	-	418
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	200
Term notes due 2026 - 2040	877	723
<b>Total non-current</b>	<b>14,914</b>	<b>13,189</b>
<b>Total borrowings</b>	<b>16,736</b>	<b>13,818</b>

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 13 Borrowings *continued*

The table below analyses the contractual maturity of the Company's borrowings falling due after more than one year:

	31 December 2020 £m	31 December 2019 £m
One to two years	714	1,567
Two to five years	3,851	2,487
Over five years	10,349	9,135
	<b>14,914</b>	<b>13,189</b>

#### ***Borrowings from group undertakings***

Heathrow Funding Limited, a fellow subsidiary company, raises funds from external sources through the issuance of external bonds and use of external derivatives. The proceeds raised are distributed to the Company under the terms of the BLAs.

Advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by Heathrow Funding Limited, taking into consideration certain of the related hedging instruments. Interest rate swaps, index-linked swaps and cross-currency swaps are entered into by Heathrow Funding Limited to hedge the SP Group's exposures. Interest rate and index-linked derivatives are mainly passed through to the Company as back-to-back derivatives, or otherwise incorporated into the related BLAs. Cross-currency swaps are packaged with external non-sterling debt and passed through to the Company under the BLAs.

During the year, following new bonds issued by Heathrow Funding Limited, further advances were made to the Company for £1,977 million (2019: £857 million), net of transaction costs. In the same period, the Company made repayments of £402 million (2019: £250 million). The effective interest rate on the BLA advances varies between 0.1% and 7.39% (2019: 0.5% and 7.39%).

#### ***Facilities***

All of the facilities are carried at amortised cost.

The Company had nil (2019: £1,225 million) undrawn committed borrowing facilities available as at 31 December 2020. In addition, as at 31 December 2020, there was an overdraft limit up to a maximum net overdraft balance of £10 million (2019: £10 million).

#### ***Securities and guarantees***

The Company, 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 £16,647 million, equal to the gross value of Heathrow (SP) gross debt.

BAA Pension Trust Company Limited, as a trustee from time to time 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.

The Company 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.

# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020 *continued*

## 14 Derivative financial instruments

31 December 2020	Notional £m	Assets £m	Liabilities £m	Total £m
<b>Current</b>				
Foreign exchange contracts	31	1	-	1
Interest rate swaps	93	-	(4)	(4)
Index-linked swaps	306	2	(17)	(15)
<b>Total current</b>	<b>430</b>	<b>3</b>	<b>(21)</b>	<b>(18)</b>
<b>Non-current</b>				
Foreign exchange contracts	62	-	(3)	(3)
Interest rate swaps	6,844	33	(431)	(398)
Index-linked swaps	5,613	52	(566)	(514)
<b>Total non-current</b>	<b>12,519</b>	<b>85</b>	<b>(1,000)</b>	<b>(915)</b>
<b>Total derivative financial instruments</b>	<b>12,949</b>	<b>88</b>	<b>(1,021)</b>	<b>(933)</b>
<hr/>				
31 December 2019	Notional £m	Assets £m	Liabilities £m	Total £m
<b>Current</b>				
Foreign exchange contracts	8	-	-	-
Interest rate swaps	738	-	(10)	(10)
Index-linked swaps	313	-	(44)	(44)
<b>Total current</b>	<b>1,059</b>	<b>-</b>	<b>(54)</b>	<b>(54)</b>
<b>Non-current</b>				
Foreign exchange contracts	33	-	(2)	(2)
Interest rate swaps	1,665	-	(396)	(396)
Index-linked swaps	5,919	24	(688)	(664)
<b>Total non-current</b>	<b>7,617</b>	<b>24</b>	<b>(1,086)</b>	<b>(1,062)</b>
<b>Total derivative financial instruments</b>	<b>8,676</b>	<b>24</b>	<b>(1,140)</b>	<b>(1,116)</b>

### Derivative financial instruments at fair value

The Company enters into derivative transactions, principally interest rate swaps, index-linked swaps and foreign exchange contracts. The purpose of these transactions is to manage interest rate, inflation and currency risks arising from the Company's operations and sources of finance. The Company does not apply hedge accounting in relation to any of its derivative financial instruments.

### Interest rate swaps

As at 31 December 2020, the total notional amount of back-to-back interest rate swaps was £6,937 million which had a mark-to-market liability of £402 million (2019: £2,403 million notional with a mark-to-market liability of £406 million).

### Index-linked swaps

Index linked swaps have been entered into in order to economically hedge debt instruments and RPI linked revenue and the Regulated Asset Base ('RAB'). Heathrow Funding Limited has entered into index linked swaps with external counterparties which have been issued to the Company as back-to-back hedges and the total notional amount of back-to-back index linked swaps was £5,919 million which had a mark-to-market net liability of £529 million (2019: £6,232 million notional with a mark-to-market net liability of £708 million).

### Financial instruments at fair value by category

All of the Company's financial assets and financial liabilities that are held at fair value are classified as derivative financial instruments and are disclosed above.

### Treasury risk management

The Company's financial risk management objectives are aligned with Heathrow Airport Holdings Limited, which is the level at which financial risks for the Company are managed. The treasury policies of the Heathrow Airport Holdings Limited have been disclosed in the internal controls and risk management section of the Strategic report in its statutory annual report and financial statements.

### Fair value estimation

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 and rely as little as possible on entity specific estimates.

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 14 Derivative financial instruments *continued*

#### Fair value estimation *continued*

Specific valuation techniques used to value financial instruments include:

- market prices for credit spreads based on counterparty's credit default swap prices and the Company's bond spread;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

### 15 Deferred income tax liabilities

The net movement on the deferred income tax account is as follows:

	2020	2019
	£m	£m
<b>1 January</b>	<b>480</b>	436
(Credited)/charged to income statement	(128)	48
Credited to other comprehensive income	(24)	(4)
Charged to income statement - change in tax rate	52	-
Charged to other comprehensive income - change in tax rate	4	-
<b>31 December</b>	<b>384</b>	480

Analysis of the deferred tax balance is as follows:

	2020	2019
	£m	£m
Excess of capital allowances over depreciation	348	353
Retirement benefit obligations	(3)	1
Other timing differences	(2)	(3)
Financial instruments	(179)	(129)
Revaluation of investment property to fair value	179	220
Tax on rolled over gains	9	8
Revaluations of property, plant and equipment	32	30
Deferred income tax liability	<b>384</b>	480

Provision has been made for deferred taxation in accordance with FRS 102.

The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the government in Finance Act 2020. The headline UK corporation tax rate of 19% was maintained and given Royal Assent on 22 July 2020. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

The net deferred tax liability expected to reverse in 2021 is £84 million. This primarily relates to the reversal of timing differences in relation to accelerated capital allowances and fair value of financial instruments.

Deferred tax assets have been recognised in respect of all deductible timing 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 tax assets. UK tax losses and capital losses have no expiry date. The recognition of these deferred tax assets is supported by a combination of the reversal of taxable timing differences and forecast future taxable income including a period of over 5 years after the balance sheet date running to 2038.

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 Company's long term forecasts over and above the amount forecast to be utilised to support recoverability of the deferred income tax assets.

The Company has a strong earnings history. The COVID-19 Pandemic has been very challenging for the aviation industry but the business fundamentals remain strong. The Company benefits from countercyclicality. In times of reduced passenger traffic across the industry, airlines have tended to consolidate traffic towards hubs such as Heathrow Airport. This position as the UK's only hub airport ensures that Heathrow remains a resilient airport, maintaining the UK's critical trade and passenger connectivity. This underlying characteristic of Heathrow means that the airport is well placed to grow once passenger demand increases and travel restrictions are eased.

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 16 Retirement benefit obligations

The Company has applied the requirements of the standard FRS 102 section 28 'Post-Employment Benefits' for the year ended 31 December 2020.

LHR Airports Limited, which is an indirect subsidiary of HAH Group (the 'Group'), is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post-Retirement Medical Benefits ('PRM') scheme. Following the decision of the directors in 2015 to re-assess the Company's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Company, should act as principal in relation to these schemes. As a result, the Company now recognises retirement benefit obligations within its financial statements.

The Company'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 Company's financial statements

The following tables identify the amounts in the Company's financial statements arising from its pension related liabilities. Further details of each scheme (except defined contribution schemes) are within sections a) and b).

##### *Income statement - pension and other pension related liabilities costs*

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Employment costs:		
Defined contribution schemes	14	15
BAA Pension Scheme	24	26
Past service costs (BAA Pension Scheme)	(53)	-
	(15)	41
Finance (credit)/ charge - BAA Pension Scheme	-	(1)
Finance charge - Other pension and post- retirement liabilities	-	1
<b>Total pension costs</b>	<b>(15)</b>	<b>41</b>

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

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
BAA Pension Scheme loss	(125)	(17)
Unfunded schemes	(2)	2
Actuarial loss recognised before tax	(127)	(15)
Tax credit on actuarial loss	23	4
<b>Actuarial loss recognised after tax</b>	<b>(104)</b>	<b>(11)</b>

Net past service credit of £53 million includes a charge of £12 million arising from curtailment of the scheme due to the changes in the organisational structure which is part of the business transformation programme outlined in Note 3, and £65 million of gains relating to liabilities extinguished on settlements. Curtailment losses resulting from scheme leavers linked to the exceptional restructuring were calculated using market conditions as at 31 July 2020 based on this being a representative midpoint of when individuals left the scheme. Settlement gains were calculated using market rates at the dates where the settlements were enacted.



# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 16 Retirement benefit obligations *continued*

#### Amounts arising from pensions related liabilities in the Company's financial statements *continued*

#### 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.

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

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of plan assets	4,796	4,302	3,869	4,085	3,975
Benefit obligation	(4,784)	(4,269)	(3,841)	(4,209)	(4,054)
Surplus/(deficit) in BAA Pension Scheme	12	33	28	(124)	(79)
Unfunded pension obligations	(30)	(28)	(28)	(29)	(29)
Post-retirement medical benefits	(1)	(1)	(4)	(5)	(6)
Deficit in other pension related liabilities	(31)	(29)	(32)	(34)	(35)
<b>Net (deficit)/surplus in pension schemes</b>	<b>(19)</b>	<b>4</b>	<b>(4)</b>	<b>(158)</b>	<b>(114)</b>
<b>Company share of net (deficit)/surplus in pension schemes</b>	<b>(19)</b>	<b>4</b>	<b>(4)</b>	<b>(158)</b>	<b>(114)</b>

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

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

#### (a) BAA Pension Scheme

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

The value placed on the Scheme's obligations as at 31 December 2020 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 31 December 2020 by KPMG LLP to take account of changes in economic and demographic assumptions, in accordance with FRS102. The valuation performed at 31 December 2020 takes account of the changes in scheme membership from special events in the year, being the scheme curtailment and settlement giving rise to past service costs as noted above. The Scheme assets are stated at their bid value at 31 December 2020. As required by FRS102, the Company recognises re-measurements as they occur in the statement of comprehensive income.

#### Analysis of movements in plan assets and defined benefit obligations

	2020 £m	2019 £m
Fair value of plan assets at 1 January	4,302	3,869
<i>Income statement:</i>		
Interest income on plan assets	80	114
Administration costs	(3)	(3)
<i>Other comprehensive income:</i>		
Re-measurement gain/(loss) (return on assets in excess of interest income on plan assets)	481	413
<i>Cash flows:</i>		
Employer contributions (including benefits paid and reimbursed)	43	49
Prepaid contributions	35	-
Members' contributions	3	3
Benefits paid (by fund and Group)	(145)	(143)
Fair value of plan assets at 31 December	4,796	4,302

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 16 Retirement benefit obligations *continued*

#### (a) BAA Pension Scheme *continued*

#### Analysis of movements in plan assets and defined benefit obligations *continued*

	2020 £m	2019 £m
Defined benefit obligation at 1 January	(4,269)	(3,841)
<i>Income statement:</i>		
Current service cost	(23)	(23)
Past service cost	54	-
Interest cost	(80)	(113)
<i>Other comprehensive income:</i>		
Re-measurements of defined benefit obligation:		
arising from changes in financial assumptions	(728)	(629)
Arising from changes in demographic assumptions	(13)	137
Experience gains	133	60
<i>Cash flows:</i>		
Members' contributions	(3)	(3)
Benefits paid (by fund and Group)	145	143
<b>Defined benefit obligation at 31 December</b>	<b>(4,784)</b>	<b>(4,269)</b>

In December 2020, the company prepaid £35m covering 2021 employer contributions including £20m of deficit repair contributions. The defined benefit obligation has been 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 net actuarial loss before tax of £127 million (2019: £17 million net loss) for the BAA Pension Scheme resulted from an increase in obligations due to lower net discount rate of £728 million (2019: £629 million gain), partially offset by an increase in assets £481 million due to over performance relative to discount rates (2019: £413 million gain) and through prepayment of the 2021 employer contributions which increased assets by £35 million (2019: nil). In addition, there was a £13 million loss (2019: £137 million gain) attributable to updated demographic assumptions and £133 million experience gain (2019: £60 million).

The actuarial loss on change in financial assumptions is mainly attributable to a decrease in the net discount rate of 0.80% over the year, based on a discount rate assumption of 1.30% and an RPI inflation assumption of 3.10%. The discount rate used has decreased from 2.10% in 2019 to 1.30% in 2020 and is derived from the yield on 'high quality corporate bonds' of duration consistent with liabilities of the scheme. In 2020 the Company decided to adopt a multi-agency approach to setting the discount rate, i.e. for a bond to be treated as high quality it must have a AA (or equivalent) from at least two of the major ratings agencies. The rationale for making this change was to be more in line with typical market practice when setting the discount rate.

#### Analysis of fair value of plan assets

Fair value of plan assets	31 December 2020			31 December 2019		
	Quoted <sup>1</sup> £m	Unquoted £m	Total £m	Quoted <sup>1</sup> £m	Unquoted £m	Total £m
Equity	620	166	786	573	133	706
Property	-	149	149	-	147	147
Bonds	476	878	1,354	357	863	1,220
Cash	-	191	191	-	111	111
LDI	-	1,545	1,545	-	1,325	1,325
Buy in	-	339	339	-	322	322
Other	164	268	432	200	271	471
<b>Total fair value of plan assets</b>	<b>1,260</b>	<b>3,536</b>	<b>4,796</b>	<b>1,130</b>	<b>3,172</b>	<b>4,302</b>

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

At 31 December 2020, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,545 million (32% of the asset holding at 31 December 2020). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk. At 31 December 2019, the largest single category of investment was an LDI mandate, with value of £1,325 million (31% of the asset holding at 31 December 2019).

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 16 Retirement benefit obligations *continued*

#### (a) BAA Pension Scheme *continued*

##### **Analysis of fair value of plan assets *continued***

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.

##### **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 FRS 102 were:

	31 December 2020	31 December 2019
	%	%
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	2.60	2.40
Increase to pensions in payment:		
Open section	3.00	3.05
Closed section	3.10	3.15
Discount rate	1.30	2.10
Inflation assumption	3.10	3.15

The assumptions relating to longevity underlying the pension liabilities at the reporting date are in line with those adopted for the 2020 actuarial funding valuation, removing prudence, and are based on standard actuarial mortality tables with an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 26.8 years (2019: 26.8 years) and 27.9 years (2019: 27.9 years) from age 60 for a 40 year old male non-pensioner.

The expected rate of inflation is an important assumption for the salary growth and pension increase assumptions. A rate of inflation is 'implied' by the difference between the yields on fixed and index-linked government bonds.

As required under FRS102, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

The funding valuation is used to judge the amount of cash contributions the Group needs to put into the pension scheme. It will always be different to the IAS 19 accounting deficit, which is an accounting rule concerning employee benefits and shown on the balance sheet of our financial statements. Note that for the valuation at 31 December 2021, the assumptions have been updated from those detailed at the September 2018 triennial valuation to allow for actual realised inflation in

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 16 Retirement benefit obligations *continued*

#### (a) BAA Pension Scheme *continued*

##### Analysis of financial assumptions *continued*

both 2019 and 2020. The future inflation assumptions above are applied for future periods. Mortality assumptions have been updated to the most up to date tables, using CMI 2019.

##### Analysis of future cashflows

UK legislation requires that pension schemes are funded prudently. In September 2019, the trustee of the BAA Pension Scheme concluded a formal actuarial valuation of the Scheme as at September 2018. The next actuarial valuation of the BAA Pension Scheme will be measured as at 31 December 2021.

The September 2018 funding valuation identified a shortfall of £123 million, and LHR Airports have agreed deficit repair contributions of £20 million per annum (previously £23 million per annum) to eliminate the September 2018 funding valuation deficit by 2022.

The valuation also considered the cost of the benefits that will be built up over the remaining future lifetime of active members. The table below gives a breakdown of the future service cost at 30 September 2018 and the cost at 30 September 2015 for comparison. Active members pay contributions to the Scheme as a condition of membership.

Future service contributions over the future lifetime of active members whilst employed by the Group	30 September 2018	30 September 2015
	% of base salary including shift pay	% of base salary including shift pay
Cost of pension benefits	26.4	24.2
Add administration expenses (including the PPF levy)	2.6	2.2
Less members' contributions	(3.4)	(3.4)
Employer future service contribution rate	25.6	23.0

##### Sensitivity analysis of significant assumptions

The following tables present a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected, before and after tax, by changes in the relevant actuarial assumptions that were reasonably possible at the reporting date.

The standard market practice is to include sensitivity to a change of between 0.1% and 1%. Therefore 0.5% is considered to be reasonable and in line with market practice.

The range of long term inflation and long dated AA bonds over 2020 were c.0.4% and 0.8% respectively, so the choice of 0.5% is deemed to be acceptable as pension sensitivities are aligned to historical trends.

	31 December 2020	
	(Decrease) / increase in defined benefit obligation	
	Before tax £m	After tax £m
<b>Discount rate</b>		
+0.50% discount rate	(708)	(573)
-0.50% discount rate	895	725
<b>Inflation rate</b>		
+0.50% inflation rate	681	552
-0.50% inflation rate	(544)	(441)
<b>Mortality</b>		
Increase in life expectancy by one year	226	183

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 2020 have been updated for the CMI 2019 model as noted above in the analysis of financial assumptions.

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 16 Retirement benefit obligations *continued*

#### (a) BAA Pension Scheme *continued*

##### Sensitivity analysis of significant assumptions *continued*

The total contributions by the Company to the defined benefit pension scheme in 2021 are expected to be £35 million and have been prepaid by the company to the scheme as at 31 December 2020. The levels of contributions are based on the current service costs and the expected cash flows of the defined benefit pension scheme. The Company estimates the present value of the duration of the Scheme liabilities on average fall due over 21 years (2019: 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 £30 million (2019: £28 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 (2019: £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.

### 17 Provisions

	Reorganisation costs £m	Home loss payment £m	Other £m	Total £m
Current	4	4	-	8
Non-current	-	-	1	1
<b>1 January 2020</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>9</b>
Charged to income statement	13	-	-	13
Utilised	(4)	(2)	-	(6)
Released to income statement	-	-	-	-
<b>31 December 2020</b>	<b>13</b>	<b>2</b>	<b>1</b>	<b>16</b>
<b>Current</b>	<b>13</b>	<b>2</b>	<b>-</b>	<b>15</b>
<b>Non-current</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>31 December 2020</b>	<b>13</b>	<b>2</b>	<b>1</b>	<b>16</b>

#### Reorganisation costs

See Note 3 in relation to the exceptional restructuring programme.

#### Home loss payments

Between 2005 and 2011, the Company entered into a number of agreements (Property Market Support Bonds) to buy residential properties in the previous third runway blight area. The purchase price for these properties included a deferred 10% payment ("deferred payment") which was to be settled in cash when planning consent was obtained. In October 2016, the Government announced its decision in favour of expansion at Heathrow and following board approval, a public statement was issued by the Company stating its intention to apply for planning consent. Legal advice was that the Company would be required to pay the deferred payment. As a result, in the year ended 31 December 2016, Heathrow created a provision for the deferred payment equal to the amount it expects to pay of £7.5 million.

As at 31st 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 2020, total amount utilised was £5.2 million paid against 171 properties resulting in a closing balance of £2.3 million. These payments were proactively paid as per the residential property agreement. In some instances the difficulties in tracing core dependants of the original property and securing robust documentation, payments had been slower than anticipated.

The supreme court over ruling of February's 2020 judgement will enable Heathrow to seek a development consent order, as a result Heathrow will continue to trace bond holders in 2021 with an expectation that these final residual payments will be concluded by end of H1.

#### Other

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

# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020 *continued*

## 18 Trade and other payables

	31 December 2020 £m	31 December 2019 £m
<b>Non-current</b>		
Preference shares	23	23
Other payables	6	6
	<b>29</b>	<b>29</b>
<b>Current</b>		
Deferred income	30	49
Trade payables <sup>1</sup>	177	156
Other tax and social security	17	9
Group relief payable	-	53
Other payables	56	7
Capital payables	39	137
Amount owed to group undertakings – interest free	180	180
	<b>499</b>	<b>591</b>

<sup>1</sup> Trade payables are non-interest bearing and are generally on 30-day terms.

<sup>2</sup> The fair value of trade payables and other payables are assumed to materially equate to their carrying value due to their short-term nature

## 19 Share capital

### Called up, allotted and fully paid

	Number	£m
<b>Ordinary shares of £1.00 each</b>		
1 January 2020	34,980,124	35
<b>31 December 2020</b>	<b>34,980,124</b>	<b>35</b>
<b>Preference shares<sup>1</sup></b>	<b>Number</b>	<b>£</b>
<b>1 January and 31 December 2020</b>		
21,960,014 preference shares – irredeemable of £0.01 each	21,960,014	219,600

<sup>1</sup> Recorded within creditors (refer to Note 18).

## 20 Revaluation reserves

	31 December 2020 £m	31 December 2019 £m
<b>1 January 2020</b>	<b>266</b>	<b>691</b>
Investment property fair value (loss)/gain	(412)	43
Deferred tax on investment properties	66	(6)
Change in tax rate – investment properties	(26)	-
Change in tax rate – operational land	(3)	-
New shares issued	-	(462)
<b>31 December 2020</b>	<b>(109)</b>	<b>266</b>

## 21 Profit and loss reserve

	31 December 2020 £m	31 December 2019 £m
<b>1 January 2020</b>	<b>2,404</b>	<b>1,778</b>
(Loss)/profit for the year	(1,353)	631
Actuarial gain/(loss) on retirement benefit scheme		
Gain on plan assets	389	498
Increase in scheme liabilities	(492)	(509)
Change in tax rate – pension	(1)	-
Investment property fair value loss/(gain)	412	(43)
Deferred tax on investment properties	(66)	6
Change in tax rate – investment properties	26	-
New shares issued	-	(201)
Reduction of nominal share capital	-	665
Dividends paid	(106)	(421)
<b>31 December 2020</b>	<b>1,213</b>	<b>2,404</b>

## 22 Dividends paid

During the year ended 31 December 2020, the Company paid dividends of £106 million (£3.03 per share) to Heathrow (AH) Limited on 27 February 2020. (2019: £2 million (interest) on 01 March 2019, £100 million (£2.73 per share) on 11 March 2019, £95 million (£2.60 per share) on 27 June 2019, £100 million (£2.73 per share) on 02 July 2019 and £124 million (£3.56 per share) on 20 December 2019.

# Heathrow Airport Limited

Notes to the Company financial statements for the year ended 31 December 2020 *continued*

## 23 Commitments and contingent liabilities

### **Non-cancellable operating lease commitments – Company as a lessee**

Total future minimum rentals payable as at the year end are as follows:

	31 December 2020		31 December 2019	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	12	47	14	30
Within two to five years	15	139	26	102
After five years	2	468	3	465
	<b>29</b>	<b>654</b>	43	597

The Company leases various offices, warehouses, plant and machinery under non-cancellable operating lease agreements.

A significant portion of the commitments classified as 'other' relate to the UK Power Networks Services Limited 'UKPNS' 'UKPNS Lease'. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UKPNS, as neither the Company nor UKPNS are able to split the base fee between a 'capital' and 'maintenance' charge. This is because the component parts within the distribution network will be replaced throughout the arrangement.

### **Non-cancellable operating lease commitments – Company as a lessor**

Total future minimum rentals receivable as at the year end are as follows:

	31 December 2020	31 December 2019
	Land and buildings £m	Land and buildings £m
Within one year	69	78
Within two to five years	193	206
After five years	1,833	1,644
	<b>2,095</b>	1,928

The Company uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months' notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand-alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Public car parks are covered by a single management contract.

### **Commitments for capital expenditure**

	31 December 2020	31 December 2019
	£m	£m
<b>Contracted for, but not accrued:</b>		
Baggage systems	49	111
Terminal restoration and modernisation	78	168
Tunnels refurbishments	28	-
Capacity optimisation	27	51
IT projects	2	15
Other projects	8	45
	<b>192</b>	390

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

### **Other commitments**

Heathrow Airport Limited has a commitment to pay £81.4 million to the Department for Transport in relation to the Crossrail project in return for a service commitment for Crossrail to operate services to Heathrow for 15 years, with payment expected during 2021 and 2022. The amount will be included as an intangible asset in the financial statements and will be added to the RAB in accordance with the Q6 regulatory settlement.

Following the Government decision in October 2016 for Heathrow as preferred option for expansion, the Company recognises that up to 66 residential property owners could exercise their right under the previous scheme for which bonds were issued, to redeem those bonds at some point in the future. The Company's best estimate of the total payment is £23 million based on a valuation in accordance with the terms set out in the bond contract and assumes all the bondholders will exercise their option to sell. Thirteen houses were purchased in 2020 for a total cost of £8 million. Therefore, the number of properties where bondholders have yet to exercise the option to sell is 37 and the commitment remaining is £7 million.

# Heathrow Airport Limited

## Notes to the Company financial statements for the year ended 31 December 2020 *continued*

### 24 Related party transactions

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are wholly-owned subsidiaries of the FGP Topco Limited Group.

During the year the Company entered into the following transactions with related parties that are not wholly owned subsidiaries of the FGP Topco Limited Group.

Related party	Sales to related party		Purchases from related party		Amounts owed by related party	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Amey OWR Ltd	-	-	-	1	-	-
Ferrovial Agroman	-	-	28	44	-	-
Harrods International Limited	6	23	-	-	-	-
Qatar Airways	22	36	-	-	-	2
QS Airports UK, LP	-	-	-	-	-	-
	<b>28</b>	<b>59</b>	<b>28</b>	<b>45</b>	<b>-</b>	<b>2</b>

The related parties above are related through ownership by the same parties. Related party transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arms-length basis.

### 25 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Company is Heathrow (AH) Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the 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 2020, 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 Finance plc and Heathrow Airport Holdings Limited for the year ended 31 December 2020.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. This is the registered office for the smallest and the largest undertaking to consolidate these financial statements.

### 26 Subsequent events

There are no subsequent events to disclose.



# Heathrow Airport Limited

## Alternative Performance Measures (APMs) - Unaudited

The Company presents its results in accordance with United Kingdom Generally Accepted Accounting Practice ('UKGAAP') - Financial Reporting Standard 102 ('FRS 102'). Management also uses other financial measures not defined by FRS 102 as APMs (Alternative Performance Measures). Management relies on these APMs for decision-making and for evaluating the company's performance. Below we provide an explanation of each APM.

### EBITDA

EBITDA is (loss)/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.

	2020	2019
	£m	£m
<b>(Loss)/profit for the year</b>	<b>(1,353)</b>	631
(Less)/add: tax (credit)/charge	<b>(176)</b>	188
Add: net finance cost	<b>415</b>	316
<b>Operating (loss)/profit</b>	<b>(1,114)</b>	1,135
Add: depreciation and amortisation	<b>774</b>	736
<b>EBITDA</b>	<b>(340)</b>	1,871

### Adjusted EBITDA

Adjusted EBITDA is (loss)/profit before interest, taxation, depreciation, amortisation and fair value gains and losses on investment properties and exceptional items. 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.

	2020	2019
	£m	£m
<b>(Loss)/profit for the year</b>	<b>(1,353)</b>	631
(Less)/add: tax (credit)/charge	<b>(176)</b>	188
Add: net finance cost	<b>415</b>	316
<b>Operating (loss)/profit</b>	<b>(1,114)</b>	1,135
Add: depreciation and amortisation	<b>774</b>	736
Add/(less): fair value losses/(gains) on investment property	<b>412</b>	(43)
Add: exceptional items	<b>182</b>	-
<b>Adjusted EBITDA</b>	<b>254</b>	1,828

### Adjusted operating (loss)/profit

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

	2020	2019
	£m	£m
Operating (loss)/profit	<b>(1,114)</b>	1,135
Add/(less): fair value losses/(gains) on investment property	<b>412</b>	(43)
Add: exceptional items	<b>182</b>	-
<b>Adjusted operating (loss)/profit</b>	<b>(520)</b>	1,092

\* Operating profit is presented on the Company Income statement, there is no mandatory requirement to disclose an operating profit line however it is a generally accepted profit measure.

# Heathrow Airport Limited

## Alternative Performance Measures (APMs) - Unaudited *continued*

### 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 Company's underlying profitability, because they can vary significantly from one year to the next. A significant portion of the fair value adjustments on financial instruments occur due to the business entering into arrangements to hedge against future inflation. As these contracts do not meet hedge criteria under IFRS 9, fair value adjustments create significant volatility in our income statement.

	2020	2019
	£m	£m
Finance income	394	206
Finance cost	(809)	(522)
<b>Net finance cost</b>	<b>(415)</b>	<b>(316)</b>
Add/(less): fair value loss/(gain) arising on re-measurement of financial instruments	147	(95)
<b>Net finance cost before certain re- measurements</b>	<b>(268)</b>	<b>(411)</b>

### Adjusted (loss)/profit before tax

Adjusted (loss)/profit 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 Company's underlying profitability, because they can vary significantly from one year to the next.

	2020	2019
	£m	£m
(Loss)/profit before tax	(1,529)	819
Add/(less): fair value loss/(gain) on investment properties	412	(43)
Add/(less): fair value loss/(gain) arising on re-measurement of financial instruments	147	(95)
Add: exceptional items	182	-
<b>Adjusted (loss)/profit before tax</b>	<b>(788)</b>	<b>681</b>

### Adjusted (loss)/profit after tax

Adjusted (loss)/profit 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 Company's underlying profitability, because they can vary significantly from one year to the next.

	2020	2019
	£m	£m
(Loss)/profit after tax	(1,353)	631
Add/(less): fair value loss/(gain) on investment properties	412	(43)
Add/(less): fair value loss/(gain) arising on re-measurement of financial instruments	147	(95)
(Less): tax credit on fair value (loss)/gain on investment properties and re-measurement of financial instruments	(100)	24
Add: exceptional items	182	-
(Less): tax credit on exceptional items	(17)	-
Add: change in tax rate	52	-
<b>Adjusted (loss)/profit after tax</b>	<b>(677)</b>	<b>517</b>

## Heathrow Airport Limited

### Alternative Performance Measures (APMs) - Unaudited *continued*

#### Regulatory Asset Base ('RAB')

The regulated asset base is a regulatory construct, based on predetermined principles not based on FRS102. By investing efficiently in the Airport, we add to the RAB over time. The RAB represents the invested capital on which Heathrow are authorised to earn a cash return. It is used in key financial ratios and in our regulatory accounts.

	2020	2019
	£m	£m
<b>Regulatory Asset Base ('RAB')</b>	<b>16,492</b>	16,598

#### 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.

<b>Gearing ratios</b>	2020	2019
Total net debt to RAB at Heathrow Finance plc	<b>0.917</b>	0.865
Total net debt to RAB at Heathrow (SP) Limited	<b>0.796</b>	0.748
Senior net debt to RAB at Heathrow (SP) Limited	<b>0.684</b>	0.666