HEATHROW (SP) LIMITED

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Passenger numbers fell to 19.4m, lowest since 1972 – Heathrow was the only European hub to see a reduction in traffic last year, due to tighter travel restrictions than EU countries. Cargo, mainly carried on passenger planes, was 12% down on pre-pandemic levels.

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

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

Passenger numbers currently 23% behind forecast, but a strong summer for outbound tourism predicted – Despite lower than expected passenger numbers in January and February, we are expecting a surge of Brits heading for summer sun and are working with our airline partners to ramp up operations to ensure they have a great experience at Heathrow, including reopening Terminal 4 by July. We expect to meet our 2022 target of 45.5m passengers.

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

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

Plans for net zero aviation by 2050 remain on-track – We are making good progress on decarbonising aviation, tackling noise, and providing skilled careers for local people, and have set more ambitious targets in our updated Heathrow 2.0 plan for sustainable growth. We are proud that all of our supply chain will now be on London Living Wage by the beginning of April, and that other employers at the airport are following suit.

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

At year ended 31 December	2020	2021	Change (%)
(£m unless otherwise stated)			
Revenue	1,175	1,214	3.3
Cash generated from operations	(95)	613	744.2
Loss before tax	(2,012)	(1,792)	10.9
Adjusted EBITDA[(1)(4)]	270	384	42.2
Adjusted loss before tax[(2)(4)]	(1,214)	(1,270)	(4.6)
Heathrow (SP) Limited consolidated nominal net debt[(3)(4)]	13,131	13,332	1.5
Heathrow Finance plc consolidated net debt[(3)(4)]	15,120	15,440	2.1
Regulatory Asset Base[(5)(4)]	16,492	17,474	6.0
Passengers (million)[(6)]	22.1	19.4	(12.3)

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

NOTES

(1) EBITDA (2021: £527m, 2020: £(326)m) is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is EBITDA excluding fair value adjustments on investment properties and exceptional items. These Alternative Performance Measures ('APMs') are reconciled in note 14.
(2) Adjusted profit before tax excludes fair value adjustments on investment properties and financial instruments and exceptional items
(3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index-linked swap accretion and the hedging impact of cross-currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans
(4) Alternative Performance Measures ('APMs'): the performance of the Group is assessed using a number of APMs, including Adjusted EBITDA, Adjusted loss before tax, Consolidated nominal net debt, Consolidated net debt and the Regulatory Asset Base. Management believe that APMs provide investors with an understanding of the underlying performance of the Group. A reconciliation of our APMs can be found in note 14
(5) The Regulated Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return
(6) Changes in passengers are calculated using unrounded passenger numbers

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

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

Wednesday February 23rd 2022

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

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Participant PIN code: 13282837#
The presentation can be accessed online or through the webcast

REVIEW OF THE YEAR

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

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

Following our request for a £2.5 billion RAB adjustment, the CAA published its interim decision in April confirming that a £300 million adjustment should be made to Heathrow's RAB immediately. We continue to believe that this interim adjustment does not go far enough, and the CAA's decision damages confidence in the principle that all efficiently incurred investment is recovered at some point. In the same month, the CAA published its 'Way Forward' document that set out the CAA's initial assessment of our Revised Business Plan ("RBP") and provided further thinking on key policy issues for the H7 period.

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

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

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

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

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

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

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

Throughout the year, we made tangible progress in decarbonising Heathrow. We integrated sustainable aviation fuels in our operation, and we saw an increased commitment to SAF and net-zero from airlines at Heathrow. We also engaged in several initiatives, including Jet Zero Council, DfT's Net Zero Aviation Consultation and COP 26. This progress has laid the foundation for Heathrow 2.0: Connecting People and Planet, our refreshed sustainability strategy that sets out our pathway to 2030 and a long-term sustainable expansion.

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

John Holland-Kaye – Heathrow CEO

OUR 3-PHASE PLAN

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

Protect the business

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

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

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

Revenue protection and loss mitigation – As traffic recovers, we continue seeking opportunities to optimise our revenue and minimise the impact of COVID-19 restrictions and the removal of tax-free shopping. We have improved the digital passenger experience to create a more seamless journey. Our Reserve and Collect offer improved in 2021 by adding more retailers and more stock to the website, including our first e-commerce only brand Aspinal of London, which is available to collect within 30 minutes from Terminal 5. We continue to welcome new retailers to our terminals, such as JD Sports, InMotion and Accessorize. We also saw a number of existing retailers open new units in the last quarter, for instance, Hugo Boss and Saint Laurent. At the same time, we continue to see an increase in our retail occupancy. In addition, we launched a highly successful pop-up collaboration with Chanel and Dufry. We also expanded our Food and Beverage proposition with new entrants, increasing our offering and choice for passengers. We introduced a Terminal Drop-Off Charge across the airport's departure forecourts in November 2021. Heathrow is one of the last UK airports to introduce such a charge, as similar access charges are already in place across nine out of the ten largest UK airports. The charge is designed to incentivise the use of public transport wherever possible when accessing Heathrow's terminals as well as reducing road traffic congestion in our local community. Finally, we continue to work with our retailers to mitigate the impact of the removal of tax-free shopping. We continue to believe this places UK tourism at a competitive disadvantage by making this the only country in Europe not to offer tax-free shopping.

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

Win the recovery

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

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

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

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

- Incumbent build back: Airlines are continuing to see an increase in passenger numbers and load factors following the re-opening of the US market and more positive policy developments on border restrictions and testing. Over half (51.1%) of all passengers flying in and out of London airports in 2022 flew at Heathrow. We are executing clear account and ramp-up plans, new for 2022, to help our airlines maximise these opportunities.
- London consolidation: Some of our biggest airlines have consolidated their London operation at Heathrow, enabled by slot alleviation conditions put in place by the UK Government during COVID-19.
- New entrants: In 2021, we brought in 11 new airlines and flew to 57 new routes.

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

Build back better

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

Sustainable growth – Climate change is an existential threat and we aim to use our role as a global hub to ensure that the aviation sector achieves net zero by 2050. We are an integral part of our local community and we are committed to minimising the negative impacts of the airport operation and to maximising the benefits for local people, for example by providing well paid careers. More detail is given under Heathrow 2.0 below.

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

STRATEGIC PRIORITIES

While we navigate the COVID-19 crisis, our strategic priorities remain:

- **Mojo:** protecting our colleagues and talent;
- **Transforming customer service:** protecting our service and reputation;
- **Beating the plan:** protecting long-term value to ensure we are viable, financeable and competitive;
- **Sustainable growth**: protecting our options to grow by building back better.

The following performance metrics were set for each of the four strategic priorities and provide a picture for the 12 months ended 31 December 2021. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators (1)	2020	2021
Colleague promotions	129	298
Managerial training	348	245
Lost time injuries	0.14	0.35

(1) For the year ended 31 December

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2020	2021
ASQ	4.24	4.23
Experience as "excellent" or "very good" %	---(2)	---(2)
Baggage connection %	99.2	99.0
Departure punctuality %	85.7	80.9
Security queuing %	95.2	97.1
Connections satisfaction	---(2)	---(2)

(1) For the year ended 31 December except ASQ presented for the three months ended 31 December
(2) Passenger satisfaction and research have been temporarily suspended

BEAT THE PLAN

Passenger traffic

(Millions) (1)	2020	2021	Var % (2)
UK	1.5	1.8	21.1
Europe	9.8	8.8	(10.6)
North America	3.9	3.3	(13.6)
Asia Pacific	2.9	1.8	(37.9)
Middle East	2.5	2.3	(6.6)
Africa	1.1	1.0	(9.4)
Latin America	0.4	0.4	(4.3)
Total passengers	**22.1**	**19.4**	**(12.3)**

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

Other traffic performance indicators (1)	2020	2021	Var % (2)
Passenger ATM	177,285	160,744	(9.3)
Load factors (%)	57.7	61.8	7.1
Seats per ATM	216.2	216.3	0.1
Cargo tonnage ('000)	1,141	1,403	23.0

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

SUSTAINABLE GROWTH

Heathrow 2.0

In February, we released an update to our sustainability plan, Heathrow 2.0: Connecting People and Planet, adapting it for the new reality Heathrow is operating in as we recover from the pandemic. It focuses on delivering outcomes that align with the most material colleague, community and environmental issues for the airport namely:

- Net zero aviation – decarbonising the aviation sector remains a key priority for Heathrow.
- A great place to live and work – delivering on the issues that are most important to local communities, managing the environmental impacts of the airport and championing equality, diversity and inclusion are critical factors to Heathrow's success.

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

Net zero aviation – Decarbonising the aviation sector remains a key priority of our sustainable growth plan.

Our net zero plan sets out our contribution to decarbonising UK aviation. The plan sets a clear direction for our company to 2030 and beyond, where we will cut our emissions and how we plan to do that. We outline how we will work in partnership and influence others where we do not directly control emissions.

It is positive that during COVID-19 – the worst crisis to face the aviation industry – the sector has backed net zero and as we recover, there is growing momentum on turning commitments into action. In 2021 the entire aviation sector globally, committed to net zero by 2050 – the first time an entire global sector has made such a commitment. This commitment will align with the Paris Agreement goal for global warming not to exceed 1.5°C.

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

Following the first delivery of SAF into Heathrow's main fuel supply in June, a SAF-fuelled 'perfect flight' departed from Heathrow to Glasgow in September and further SAF deliveries took place in partnership between airlines and fuel companies, including during COP26 when all British Airways flights between Heathrow and Scottish airports were fuelled with a blend of SAF.

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

Through our offsetting partner CHOOOSE, we offered companies and passengers the chance to buy SAF. Customers can select to offset their flights by paying for SAF which is used on existing scheduled flights. Heathrow is the first airport in the UK to offer passengers this opportunity.

The World Economic Forum's 'Clean Skies for Tomorrow' and the Prince of Wales' Sustainable Markets Initiative (SMI) continue to co-ordinate net zero 'high ambition' coalitions for aviation towards a global net zero target at ICAO 2022 and pressing for urgent support for SAF to enable its achievement.

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

In 2021 we have already delivered some significant results. For instance, to support sustainable colleague travel to work, and provide better travel options to local communities, we focused on developing a new Sustainable Travel Zone (STZ). In November 2021, we also introduced Terminal Drop Off Charge, contributing to modal shift from private vehicles to public transport.

We also worked to develop the Airside ULEZ strategy continued with a focus on airside vehicle safety standards, net zero emissions and optimisation of vehicles operating airside.

In 2021 we have tackled the knock-on effect on the local communities who heavily rely upon the airport through delivering the recommendations in the Heathrow Local Recovery Plan across its four priorities – employment and skills, supply chain opportunities, surface access and green recovery.

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

Finally, in 2022, Heathrow 2.0 commits the airport to:

- Develop a Nature Positive Airport Plan to continue to strengthen and showcase biodiversity management at the airport
- Launch a new Giving Back Programme detailing Heathrow's community investment strategy and volunteering programmes that will benefit at least 1 million residents

Over this decade, Heathrow 2.0 commits the airport to:

- Maximise the materials used at the airport that are repurposed, moving Heathrow towards becoming Zero Waste
- Introduce an airside ultra-low emission zone by 2025.
- Generate at least £6.5 million in funds for the independent Heathrow Community Trust charity
- Reduce areas affected by noise, introduce new alternation patterns, and increase nights without aircraft relative to 2019
- Provide 10,000 external jobs, apprenticeships and early career opportunities for local people
- Provide 15,000 experiences of the workplace
- Ensure diversity levels within all rungs of the leadership ladder reflect the diversity levels of our local community.

Our full sustainability strategy is available on our website for further information.

Expansion developments

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

Key regulatory developments

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

- A range of cost and revenue forecasts leading to an upper quartile H7 charge of £34.40 (2020p) and a lower quartile estimate of £24.50 (2020p)
- Three potential capital expenditure plans ranging from £1.6 billion to £3 billion
- A pre-tax WACC range of between 7.09% and 4.38%

- The continued implementation of the £300 million RAB adjustment set out in the CAA's April 2021 decision (CAP2140)
- A new traffic risk sharing mechanism and mechanisms to deal with asymmetric risk and cost uncertainty
- Proposals for an ex-ante capital efficiency framework with an incentive of between 20% and 30%
- Movement towards an outcomes-based service quality framework

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

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

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

Heathrow Response and RBP Update 2 – We submitted our response to the CAA's Initial Proposals on 17 December. Alongside our response we also submitted the second update to our December 2020 RBP, known as RBP Update 2.

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

- An H7 charge of £41.95 (2018p) reflecting new forecasts of opex, commercial revenues and a revised passenger forecast of 317.1m over the H7 period;
- Opportunity to reduce charge to £34 if CAA enables deferral of regulatory depreciation beyond H7 by providing a full RAB adjustment;
- A pre-tax WACC of 8.5%;
- A capital plan of £4.1 billion (2018p), allowing us to invest in key programmes such as Regulated Security Compliance, the refurbishment of the Terminal 2 baggage system and decarbonisation and sustainability;
- Continuing to request a full RAB adjustment of £2.5 billion to fully implement the CAA's regulatory framework following the impact of COVID-19; and
- Proposed changes to the CAA's risk sharing mechanism to ensure it reflects the commercial revenue risk inherent in the single till model.

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

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

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

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

Brexit

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

From a border perspective, the UK's Border Operating Model (BOM) outlines a phased approach for cargo to limit immediate inbound changes at the UK border as a result of EU Exit. In September 2021, the UK Government revised this timeline again, with checks on some imports being required from 1 January 2022 and further checks from 1 March and 1 July 2022.

EU citizens can continue to use electronic gates at immigration upon arrival into the UK. From 1 October 2021, unless they hold EU Settled Status, EU arrivals must now present their passport at the UK border as valid ID. Heathrow has been working with Government and UK Border Force to manage changes to border and passenger processes, including the end of using EU ID cards to enter the UK.

Longer-term post-EU Exit, Heathrow is working with the Government to deliver on their objective of 'a world class border for people and goods'. As the UK's biggest port by value and only hub airport, Heathrow has an integral role to play in helping the Government make 'Global Britain' a reality.

From a passenger perspective, we plan to increase the number of eligible cohorts using e-Gates, better resource colleagues at the border, and introduce new security scanners that would make the passenger journey faster and smoother than today. From a freight perspective, we are pushing Government to remove outdated 'Canalisation' regulation, thereby making the cargo processing time at Heathrow quicker – in some cases halving the processing time for goods. Heathrow is playing an active role in shaping the Government's 2025 Border Strategy and these asks sit alongside wider improvements to increase digitization and efficiency at the border.

FINANCIAL REVIEW

Basis of presentation of financial results

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

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

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

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

Summary performance

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

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

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

Revenue

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

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

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

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

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

Year ended 31 December	2020 £m	2021 £m	Var. %
Other regulated charges	118	297	151.7
Heathrow Express	26	26	0.0
Property and other	150	120	(20.0)
Total other revenue	**294**	**443**	**50.7**

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

Adjusted operating costs

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

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

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

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

Operating Loss and Adjusted EBITDA

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

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

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

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

Exceptional items

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

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

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

Loss after tax

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

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

Taxation credit	227	179
Loss after tax	**(1,785)**	**(1,613)**

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

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

Taxation

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

Cash position

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

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

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

Cash (used in)/generated from operations

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

Year ended 31 December	2020 £m	2021 £m
Cash (used in)/generated from operations	(95)	613
Exclude:		
Increase/(decrease) in receivables[1]	239	(283)
Increase/(decrease) in inventories	1	(1)
(Increase)/decrease in trade and other payables	(56)	66
Decrease in provisions	5	-
Difference between pension charge and cash contributions	51	(22)
Cash payments in respect of exceptional items	125	11
Adjusted EBITDA	**270**	**384**

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

Capital expenditure

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

We are investing in various programmes to ensure the airport's safety and resilience. Investment has focused on main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained, Kilo Apron development, back-office systems upgrades and renewal of assets that have come to the end of their economic life.

We also invested £5 million in the period (2020: £68 million) on plans to expand the airport.

Expansion-related capital expenditure includes Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Since 2016, Heathrow has invested £383 million in Category B costs and £130 million in Category C costs, a total of £513 million (before capitalised interest and after £10 million of re-work impairment) is carried in our balance sheet as assets in the course of construction.

Restricted payments

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

No restricted payments were made out of the Group during the year as a result of the trigger event that occurred in relation to the historic ICR for senior and junior debt for the year ending 31 December 2020. The trigger event means that cash is trapped within the Group and cannot be distributed to Heathrow Finance to service debt, nor to pay dividends to ultimate shareholders.

Heathrow Finance itself has liquidity of £256 million, which can cover approximately 2 years of debt service and prior to its next debt maturity in 2024.

RECENT FINANCING ACTIVITY

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

Class A financing activities included:

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

Class B financing activities included:

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

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

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

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

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

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

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

We have sufficient liquidity to meet all our forecast needs well into 2025 under our current traffic forecast or until at least February 2023 under the extreme stress-test scenario of no revenue. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2,625 million in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 31 December 2021.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £15,440 million (31 December 2020: £15,120 million). This comprised Heathrow SP's £13,332 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £256 million.

Financial ratios

At 31 December 2021, Heathrow SP and Heathrow Finance continue to operate within required financial ratios. Gearing ratios and interest coverage ratios are defined within the Glossary.

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

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

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

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

CLIMATE CHANGE

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

CAA PASSENGER TARIFF UNCERTAINTY

The passenger tariff, which is set by the Civil Aviation Authority (the "CAA"), has a significant impact on critical accounting judgements such as going concern and impairment. However, there remains uncertainty over this passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026). As described on page 7, a range of potential tariffs have been provided by the CAA in their "Initial Proposals" with a final decision expected later in 2022. Until the H7 tariff is finalised, the CAA has put in place an interim tariff (the "interim tariff") from 1 January 2022.

Short term projections are based on the latest forecast approved by the Board in December 2021 and incorporate the interim tariff, while longer term forecasts reflect the tariff as determined by the RBP Update 2. This forecasting has been communicated to the CAA as part of ongoing negotiations. The Directors also acknowledge that this is a critical judgement and have therefore sensitised the forecasts to capture the CAA's proposed lowest tariff and have assumed no further RAB settlement, in order to model the potential downside risk. Specifically, if passenger pricing was such that the Group were unable to secure minimum cashflow generation to protect an investment grade credit rating, access to liquidity at affordable prices beyond 2023 may be compromised.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 December 2021, the defined benefit pension scheme, as measured under IAS 19, was funded at 107.6% (31 December 2020: 100.3%). This translated into an accounting surplus of £343 million (31 December 2020: £12 million). The £331 million increase in the surplus in the year is largely due to actuarial gains of £355 million, attributable to strong asset performance relative to movements in the scheme liabilities offset by current service costs of £21 million. In December 2020, we prepaid £35 million into the defined benefit pension scheme to cover 2021 contributions. The Directors believe that the scheme has no significant plan-specific or concentration risks. Further details can be found in Note 10.

Bulk Purchase Annuity Policy

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

KEY MANAGEMENT CHANGES

Since the last results release in October, David Begg resigned as independent Non-Executive Director on 24 November 2021, after 11 years of service. David chaired the Begg review into the 2010 snow incident that led to a significant improvement in the safety and resilience of Heathrow.

OUTLOOK

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

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

APPENDIX 1 SUMMARY OF ADDITIONAL DISCLOSURES

SUMMARY OF ADDITIONAL DISCLOSURES

Borrower Loan Amendments - LIBOR Transition – NOTICE OF AMENDMENTS TO CERTAIN BORROWER LOAN AGREEMENTS IN RESPECT OF LIBOR TRANSITION

Full RNS available here: Borrower Loan Amendments - LIBOR Transition - 15:47:44 13 Dec 2021 - News article | London Stock Exchange

Response to CAA's statement re 2022 airport charge – This morning the CAA published a statement on the 2022 interim airport charge. Responding to the CAA's statement, a Heathrow spokesperson said: "We are extremely disappointed in this interim decision from the CAA. It relies on rushed analysis and will undermine passenger experience at the UK's hub airport. "As an example, the CAA's flawed analysis assumes that operating costs at Heathrow next year will be £173m lower than our budget. This is even lower than we were able to achieve in 2020, when we served half as many passengers with only one runway and two terminals operating and the benefit of a government furlough scheme. There are material and basic errors in many aspects of the CAA's assessment. Uncorrected, these risks leaving Heathrow without sufficient cashflow to support investment in improving passenger service and resilience. "The decision by the CAA differs materially from the forecast assumed in our Investor Report published last week. We will analyse the impact and consider whether issuing an update in January is necessary. We are making a detailed submission to the CAA, and expect a more considered outcome when it makes its final decision in Spring 2022.

Full RNS available here: Response to CAA's statement re 2022 airport charge - 07:05:22 16 Dec 2021 - News article | London Stock Exchange

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated income statement for the year ended 31 December 2021

		Year ended 31 December 2021				Year ended 31 December 2020			
		Before certain re-measurements and exceptional items [1]	**Certain re-measurements [2]**	**Exceptional items [3]**	**Total**	Before certain re-measurements and exceptional items [1]	Certain re-measurements [2]	Exceptional items [3]	Total
	Note	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Continuing operations									
Revenue	*1*	1,214	-	-	1,214	1,175	-	-	1,175
Operating costs [4]	*2*	(1,627)	-	(31)	(1,658)	(1,717)	-	(184)	(1,901)
Other operating items:									
Fair value gain/(loss) on investment properties	*7*	-	174	-	174	-	(412)	-	(412)
Operating loss		**(413)**	**174**	**(31)**	**(270)**	(542)	(412)	(184)	(1,138)
Financing									
Finance income		7	-	-	7	12	-	-	12
Finance cost		(864)	(665)	-	(1,529)	(684)	(202)	-	(886)
Net finance cost	*4*	**(857)**	**(665)**	**-**	**(1,522)**	(672)	(202)	-	(874)
Loss before tax		**(1,270)**	**(491)**	**(31)**	**(1,792)**	(1,214)	(614)	(184)	(2,012)
Taxation credit		254	139	-	393	211	110	18	339
Change in tax rate		-	(214)	-	(214)	-	(112)	-	(112)
Taxation credit	*5*	**254**	**(75)**	**-**	**179**	211	(2)	18	227
Loss for the year [5]		**(1,016)**	**(566)**	**(31)**	**(1,613)**	(1,003)	(616)	(166)	(1,785)

(1) Amounts stated before certain re-measurements and exceptional items are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including the impact of the UK corporation tax rate change.
(3) Exceptional items are one-off material costs that have been incurred as a result of management decisions made in response to COVID-19 and/or the delay to Expansion following the Judicial Review. Further details can be found in note 3.
(4) Included within Operating costs is a £3 million (2020: £12 million) charge for the impairment of trade receivables.
(5) Attributable to owners of the parent.

Heathrow
Making every journey better

Condensed consolidated statement of comprehensive income for the year ended 31 December 2021

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss for the period	**(1,613)**	(1,785)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain/(loss) on pensions net of tax:		
Gain on plan assets [1]	141	389
Decrease/(increase) in scheme liabilities [1]	125	(492)
Change in tax rate	(1)	(1)
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gains/(losses) taken to equity [1]	18	(43)
Transfer to finance cost [1]	38	53
Change in tax rate	12	4
Change in tax rate on other opening balances	(4)	(1)
Other comprehensive income/(expense) for the period net of tax	**329**	(91)
Total comprehensive expense for the period [2]	**(1,284)**	(1,876)

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

Condensed consolidated statement of financial position as at 31 December 2021

	Note	31 December 2021 £m	31 December 2020 £m
Assets			
Non-current assets			
Property, plant and equipment	*6*	10,654	11,136
Right of use asset		270	285
Investment properties	*7*	2,297	2,118
Intangible assets		156	182
Retirement benefit surplus	*10*	343	12
Derivative financial instruments	*9*	421	656
Trade and other receivables		23	20
		14,164	**14,409**
Current assets			
Inventories		13	14
Trade and other receivables		201	496
Current income tax assets		3	1
Derivative financial instruments	*9*	25	146
Term deposits		2,410	3,236
Cash and cash equivalents		216	280
		2,868	**4,173**
Total assets		**17,032**	**18,582**
Liabilities			
Non-current liabilities			
Borrowings	*8*	(18,341)	(18,635)
Derivative financial instruments	*9*	(2,225)	(1,134)
Lease liabilities		(331)	(349)
Deferred income tax liabilities		(706)	(784)
Retirement benefit obligations	*10*	(30)	(31)
Provisions		(1)	(1)
Trade and other payables		(3)	(6)
		(21,637)	**(20,940)**
Current liabilities			
Borrowings	*8*	(1,008)	(1,928)
Derivative financial instruments	*9*	(19)	(21)
Lease liabilities		(40)	(43)
Provisions		(4)	(15)
Trade and other payables		(365)	(392)
		(1,436)	**(2,399)**
Total liabilities		**(23,073)**	**(23,339)**
Net liabilities		**(6,041)**	**(4,757)**
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(105)	(173)
Accumulated losses		(2,688)	(1,336)
Total shareholder's equity		**(6,041)**	**(4,757)**

Condensed consolidated statement of changes in equity for the year ended 31 December 2021

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	(Accumulated losses)/ retained earnings £m	Total equity £m
1 January 2020	**11**	**499**	**(3,758)**	**(187)**	**661**	**(2,774)**
Comprehensive income:						
Loss for the period	-	-	-	-	(1,785)	(1,785)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	10	-	10
Change in tax rate	-	-	-	4	-	4
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	389	389
Increase in scheme liabilities	-	-	-	-	(492)	(492)
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(1)	(1)
Total comprehensive income/(expense)	**-**	**-**	**-**	**14**	**(1,890)**	**(1,876)**
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(107)	(107)
Total transaction with owners	**-**	**-**	**-**	**-**	**(107)**	**(107)**
31 December 2020	**11**	**499**	**(3,758)**	**(173)**	**(1,336)**	**(4,757)**
Comprehensive income:						
Loss for the period	-	-	-	-	(1,613)	(1,613)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	56	-	56
Change in tax rate	-	-	-	12	-	12
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	141	141
Decrease in scheme liabilities	-	-	-	-	125	125
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(4)	(4)
Total comprehensive income/(expense)	**-**	**-**	**-**	**68**	**(1,352)**	**(1,284)**
31 December 2021	**11**	**499**	**(3,758)**	**(105)**	**(2,688)**	**(6,041)**

Condensed consolidated statement of cash flows for the year ended 31 December 2021

	Note	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Cash flows from operating activities			
Cash generated from/(used in) operations [1]	11	613	(95)
Taxation:			
Corporation tax (paid)/received		(1)	67
Group relief received		-	2
Net cash generated from/(used in) operating activities		**612**	**(26)**
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(248)	(512)
Investment properties		(4)	(9)
Disposal of:		-	-
Property, plant and equipment		14	-
Decrease/(increase) in term deposits [2]		826	(2,511)
Interest received		7	12
Net cash generated from/(used in) investing activities		**595**	**(3,020)**
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		-	(107)
Proceeds from issuance of bonds		1,582	1,977
Repayment of bonds		(1,119)	(402)
Repayment of facilities and other financing items		(1,590)	(12)
Increase in amount owed to Heathrow Finance plc		166	787
Prepayment of interest on swaps [3]		-	(30)
Inflation swap restructuring prepaid [3]		-	(47)
Interest paid [4]		(258)	(628)
Issuance of term notes		50	255
Drawdown of revolving credit facilities		-	1,050
Settlement of accretion on index-linked swaps		(69)	(285)
Payment of lease liabilities		(33)	(36)
Prepayment of lease liabilities [1]		-	(11)
Net cash (used in)/generated from financing activities		**(1,271)**	**2,511**
Net decrease in cash and cash equivalents		**(64)**	**(535)**
Cash and cash equivalents at beginning of year		280	815
Cash and cash equivalents at end of year		**216**	**280**

(1) Within cash used in operations for the year ended 31 December 2020, the increase in trade and other receivables included £247 million relating to supplier prepayments, of which £60 million related to the advance payment of 2021 payroll taxes to HMRC. In addition, a further £11 million of lease liability prepayments were made, and were included within cash flows from financing activities. These prepayments were made in order to manage banking covenant ratios and all fully unwound during 2021.

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

(3) In the year ended 31 December 2020, the Group reprofiled a proportion of existing interest rate and inflation swaps and completed a series of new interest rate swap transactions with the aim of reducing future interest payments (the "swap restructuring programme"). As a result, interest payments were prepaid in 2020, thereby reducing 2021 cash outflows.

(4) Includes £16 million of lease interest paid (2020: £16 million).

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

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2021 or any other period. The annual financial information presented herein for the year ended 31 December 2021 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2021. The auditors' report on the 2021 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Primary financial statements format

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

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

Accounting policies

Basis of preparation

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

The financial statements for the year ended 31 December 2021 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2020 with the exception of the additional accounting policies and significant accounting judgements and estimates which have been detailed below.

Going concern

The Directors have prepared the financial information presented in the annual report and accounts on a going concern basis as they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Cash flow and liquidity

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

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.6 billion of debt in the year to 31 December 2021 with new €500 million, C$1,275 million and AUD125 million Class A transactions and £400 million of Class B transactions being successfully executed. Consequently, Heathrow SP held cash of circa. £2.6 billion as at 31 December 2021. Total debt maturity within Heathrow SP for the next 12 months from 31 December 2021 is £0.7 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa. £2.9 billion available. No debt matures outside of Heathrow SP for the next 12 months from 31 December 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the current regulatory business plan cash flow forecast or until at least February 2023 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Heathrow's regulatory business plan

The Directors have modelled future cash flows for the period beyond 12 months to December 2023 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations, based initially on a 2022 traffic forecast of 45.5 million passengers;
- forecast level of capital expenditure; and
- the overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

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

In modelling the impact of COVID-19, there remains a significant degree of uncertainty given the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. Therefore, there is inherent subjectivity in our forecasting. For the year ended 31 December 2021, passenger traffic for the Group declined 12.2% to 19.4 million when compared with 22.1 million in 2020, and by 76.0% compared to 2019. Despite this decline in passengers compared to 2020, Adjusted Group EBITDA increased 42.2% to £384 million in 2021 driven by the annualised benefit of cost reduction initiatives implemented in 2020 and management actions taken to optimise revenue.

In addition to the inherent passenger forecast uncertainties described above, we do not yet have certainty over passenger tariffs for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026), which is set by the Civil Aviation Authority (the "CAA"). As described on page 17 of these Annual Report and Accounts, a range of potential tariffs have been provided by the CAA in their "Initial Proposals" with a final decision expected later in 2022. Until the H7 tariff is finalised, the CAA has put in place an interim tariff (the "interim tariff") from 1 January 2022.

The cash flows in Heathrow's current regulatory business plan (Revised Business Plan Update 2 – "RBP Update 2") reflect the Director's view of the expected CAA passenger tariff for the H7 regulatory period, as outlined on page 17. RBP Update 2 assumes the interim tariff will remain in place for the entirety of 2022 and that the overall tariff for the H7 period will be £41.95 (in 2018 prices). This is above the CAA's high charge as set out in their Initial Proposals. It is the Director's view that its own RBP Update 2 is devoid of the errors made in the CAA's Initial Proposals and is therefore a realistic tariff supported by a detailed assessment of each individual building block which form part of the tariff calculation. Under RBP Update 2, the Group will meet all covenants associated with its financial arrangements.

The Directors acknowledge that this is a critical judgement and has therefore considered two further sensitivity scenarios for financial reporting purposes, described below.

Stress testing

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

The Directors have stress tested RBP Update 2, described above, with a number of downturn scenarios taking into account the range of CAA H7 tariffs and further decreases in passenger numbers and a resulting drop in EBITDA.

Under a severe but plausible downside scenario, the Directors have modelled the interim tariff for 2022 and an overall H7 tariff at the lowest end of the range from the CAA's Initial Proposals (£22.94 in 2018 prices). This scenario assumes no further RAB adjustment. Given the continued uncertainty over potential future travel restrictions in the UK and those markets which Heathrow services caused by any new COVID-19 variants, and a resultant impact on consumer confidence, the Directors have modelled downside passenger forecasts in 2022. Whilst the Directors do not consider this scenario likely, a reduction in passenger numbers of over 8 million (18% reduction versus RBP Update 2) under the severe but plausible downside scenario is forecast to result in an ICR covenant breach at ADIF2 in December 2022.

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

Conclusion

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

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

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

The Annual report and Accounts do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

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

Accounting policies in addition to those included in the consolidated financial statements for the year ended 31 December 2021

The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2021.

New IFRS accounting standards and interpretations adopted in the period

Interest Rate Benchmark Reform Phase 2

The Group early-adopted Phase I of IFRS Interest Rate Benchmark Reform amendments related to hedge accounting with effect from 1 January 2020, and Phase II with effect from 1 January 2021. The amendments impact our fair value hedging relationships where derivative cash flows will be transitioned from paying LIBOR to paying an alternative reference rate. The Phase I amendments will be applied until the earliest point in time of the Group's contracts that reference LIBOR being amended, the hedging relationship being formally discontinued or formal market conventions ending uncertainty being published and widely adopted. When the transition takes place, on the hedge relationships where Phase 2 amendments are applicable, the hedged risk must be re-documented to reflect this and allow the existing hedge designations to continue. If amended cash flows do not cause a hedging relationship to be discontinued, then the amendments will cease to be applied only when that relationship is discontinued under IFRS 9. The notional values of hedging instruments, for all fair value hedging relationships impacted by the Phase 2 amendments, are shown in the relevant tables in notes 8 and 9. There is no impact on cash flow hedging relationships. These amounts also correspond to the exposures designated as fair value hedges.

The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows. Interest rate basis swaps will follow ISDA fallback rates (ISDA, 2020) unless the contracts are re-negotiated to reference the alternate reference rates (ARRs).

During 2021, the Directors reviewed the Group's exposures to IBOR, including an assessment of the impact on the following:
- The Group's revolving credit facilities of £1,150 million maturing November 2023;
- The Group's liquidity facilities of £595 million;
- Heathrow Airport Limited term notes of £718 million maturing 2022 – 2029 and EIB loan of £6 million maturing 2022;
- Heathrow Finance plc term notes and drawn facilities of £587 million maturing 2024 – 2031;
- ADI Finance 2 Limited drawn facilities of £750 million maturing 2027;
- A review of all outstanding derivative financial instruments including cross currency swaps, interest rate swaps and inflation linked swaps;
- A review of all hedged relationships both cash flow hedges and fair value hedges;
- A review of all contracts including insurance and leases;
- A review of all intercompany loan agreements;
- A review of all pension assets and liabilities; and
- An update of the Treasury systems and processes to reflect the update from LIBOR discounting to ARR discounting.

The assessment highlighted the need to amend language in the revolving credit facilities and derivative contracts which all reference IBOR, in order that they reference alternative risk-free rates (ARFR) once the relevant IBOR is discontinued. The need to update systems and processes to be able to use the ARFR, including day-count and compounding conventions was also identified. Accordingly, the Group has engaged with its banking partners and external advisors during the period to amend IBOR language within revolving credit facilities and derivative contracts; and has completed implementation of system changes. The assessment identified no impact relating to intercompany loan agreements or other contracts.

Apart from this there have been no other new standards, interpretations and amendments, issued by the IASB or by the IFRS Interpretations Committee (IFRIC), that are applicable for the period commencing on 1 January 2021 that have had a material impact on the Group's results.

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

Significant accounting judgements and changes in estimates

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

Critical judgments in applying the Group's accounting policies

In preparing the twelve-month condensed consolidated financial information, the areas where judgement has been exercised by management in applying the Group's accounting policies remain consistent with those applied to the Annual Report and Accounts for the year ended 31 December 2020.

Retirement benefit scheme surplus

At 31 December 2021, the BAA Pension Scheme is in a net surplus position of £343 million, comprising of scheme assets measured at fair value of £4,886 million and scheme liabilities of £4,543 million. Based on legal advice obtained, the Directors have deemed it appropriate to recognise the surplus in full on the basis that there is an unconditional right to refund and therefore no requirement to restrict the surplus as measured under IAS 19.

Going concern

The impact of COVID-19 on the Group's going concern was considered in some detail. Further information can be found within the 'Basis of preparation' section.

Key sources of estimation uncertainty

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

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

1. SEGMENT INFORMATION

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

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

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

Table (a)	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Revenue reported under IFRS 15		
Aeronautical		
Movement charges	367	244
Parking charges	57	62
Passenger charges	130	341
Total aeronautical revenue	554	647
Other regulated charges	297	118
Retail services revenue	217	234
Property revenue	13	20
Rail Income		
Heathrow Express	26	26
Other	4	23
Total revenue reported under IFRS 15	**1,111**	**1,068**
Revenue reported under IFRS 16		
Property (lease-related income)	103	107
Total revenue	**1,214**	**1,175**
Heathrow	*1,188*	*1,149*
Heathrow Express	*26*	*26*
Adjusted EBITDA	384	270
Heathrow	*395*	*284*
Heathrow Express	*(11)*	*(14)*
Reconciliation to statutory information:		
Depreciation and amortisation	(797)	(812)
Operating loss (before certain re-measurements and exceptional items)	**(413)**	**(542)**
Exceptional items	(31)	(184)
Fair value gain/(loss) on investment properties (certain re-measurements)	174	(412)
Operating loss	**(270)**	**(1,138)**
Finance income	7	12
Finance cost	(1,529)	(886)
Loss before tax	**(1,792)**	**(2,012)**

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

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m
Property income charged in advance	7	28
Retail and other income charged in advance	30	14
Total	**37**	42

All unsatisfied performance obligations at 31 December 2020 were satisfied during 2021 and are included within total revenue for the year. Management expects that the transaction price allocated to the unsatisfied contracts as of the year ended 2021 will be recognised as revenue in full during the next reporting period.

Table (c)	Year ended 31 December 2021		Year ended 31 December 2020	
	Depreciation & amortisation [1] £m	Fair value gain [2] £m	Depreciation & amortisation [1] £m	Fair value loss [2] £m
Heathrow	(764)	174	(769)	(412)
Heathrow Express	(33)	-	(43)	-
Total	**(797)**	**174**	(812)	(412)

(1) Includes intangible amortisation charge of £37 million (year ended 31 December 2020: £44 million).
(2) Reflects fair value gain and loss on investment properties only.

Table (d)	31 December 2021		31 December 2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	12,750	(346)	13,319	(401)
Heathrow Express	594	(27)	647	(13)
Total operations	**13,344**	**(373)**	13,966	(414)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	2,626	(15,819)	3,516	(17,219)
Retirement benefit assets/(obligations)	343	(30)	12	(31)
Derivative financial instruments	446	(2,244)	802	(1,155)
Deferred and current tax assets/(liabilities)	3	(706)	1	(784)
Amounts owed to group undertakings	-	(3,530)	-	(3,344)
Right of use asset and lease liabilities	270	(371)	285	(392)
Total	**17,032**	**(23,073)**	18,582	(23,339)

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

2. OPERATING COSTS

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Employment [1]	256	282
Operational	197	224
Maintenance	133	140
Rates	119	116
Utilities	59	62
Other	66	81
Total operating costs before depreciation and amortisation	**830**	905
Depreciation and amortisation:		
Property, plant and equipment	720	730
Intangible assets	37	44
Right of Use (RoU) assets	40	38
	797	812
Operating costs before exceptional items	**1,627**	1,717
Exceptional items (note 3)	31	184
Total operating costs	**1,658**	1,901

(1) Government grants of £21 million (2020: £36 million) have been received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

3. EXCEPTIONAL ITEMS

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Business transformation	-	(92)
Asset impairment and write-off	(31)	(92)
Total operating loss on exceptional items	**(31)**	(184)
Tax credit on exceptional items	-	18
Loss on exceptional items after tax	**(31)**	(166)

Year ended 31 December 2021 exceptional items

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

Year ended 31 December 2020 exceptional items

In the prior year, as a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group underwent a business transformation in order to simplify operations and reduce costs. Following this review the Group incurred £92 million of exceptional charges, consisting of £142 million of people-related costs, principally redundancy, partially offset by a net £50 million credit associated with corresponding pension settlements and curtailments. In addition, the Group reviewed its asset portfolio and recognised a non-cash impairment and write-off charge of £92 million on assets in the course of construction. At 31 December 2020, £13 million of costs relating to the business transformation programme had not been utilised and were included within provisions. In the twelve months ended 31 December 2021, £11 million of this provision was utilised with the remaining £2 million expected to be utilised in 2022.

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

4. FINANCING

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Finance income		
Interest on deposits	7	12
Total finance income	7	12
Finance cost		
Interest on borrowings:		
Bonds and related hedging instruments (1)	(609)	(514)
Bank loans, overdrafts and unwind of hedging reserves	(60)	(63)
Net interest expense on external derivatives not in hedge relationship (2)	5	17
Facility fees and other charges	(9)	(15)
Net pension finance costs	(1)	(1)
Interest on debenture payable to Heathrow Finance plc	(184)	(125)
Finance cost on lease liabilities	(16)	(16)
	(874)	(717)
Less: capitalised borrowing costs (3)	10	33
Total finance cost	(864)	(684)
Net finance cost before certain re-measurements	**(857)**	(672)
Fair value loss on financial instruments		
Interest rate swaps: not in hedge relationship	(102)	(65)
Index-linked swaps: not in hedge relationship	(529)	(75)
Cross-currency swaps: not in hedge relationship (4), (5)	(15)	11
Ineffective portion of cash flow hedges (5)	(10)	(14)
Ineffective portion of fair value hedges (5)	(9)	(59)
	(665)	(202)
Net finance cost	**(1,522)**	(874)

(1) Includes accretion of £111 million for year ended 31 December 2021 (year ended 31 December 2020: £24 million) on index-linked bonds.

(2) Includes accretion of £318 million for year ended 31 December 2021 (year ended 31 December 2020: £75 million) on index-linked swaps.

(3) Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 1.91% (year ended 31 December 2020: 3.82%) to expenditure incurred on such assets.

(4) Includes foreign exchange retranslation gain on the currency bonds of £7 million (2020: £6 million loss) which has moved systematically in the opposite direction to that of the cross-currency swaps which economically hedge the related currency bonds.

(5) The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

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

5. TAXATION CREDIT/(CHARGE)

	Year ended 31 December 2021			Year ended 31 December 2020			
	Before certain re-measurements and exceptional items £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Exceptional items £m	Total £m
UK corporation tax:							
Current tax credit/(charge) at 19% (2020: 19%)	4	(2)	2	76	(2)	27	101
Deferred tax:							
Current year credit/(charge)	251	141	392	135	106	(9)	232
Prior year (charge)/credit	(1)	-	(1)	-	6	-	6
Change in tax rate	-	(214)	(214)	-	(112)	-	(112)
Taxation credit/(charge)	**254**	**(75)**	**179**	211	(2)	18	227

The total tax credit recognised for the year ended 31 December 2021 was £179 million (2020: £227 million) on a loss before tax for the year ended 31 December 2021 of £1,792 million (2020: £2,012 million).

The tax credit before certain re-measurements and exceptional items for the year ended 31 December 2021 was £254 million (2020: £211 million). Based on a loss before tax, certain re-measurements and exceptional items of £1,270 million (2020: £1,214 million), this results in an effective tax rate of 20.0% (2020: 17.4%). The tax credit for 2021 is more than implied by the statutory rate of 19% (2020: 19%) primarily due to some of the current year deferred tax movements at the 25% tax rate, offset by non-deductible expenses reducing the tax credit for the year (2020: non-deductible expenses reducing the tax credit for the year).

In addition, there was a £139 million tax credit (2020: £110 million) arising from fair value gain on investment property revaluations and fair value losses on financial instruments and any prior year adjustments, along with a £214 million tax charge (2020: £112 million) associated with the impact on deferred tax balances of the substantive enactment of the increase in the corporation tax rate from 19% to 25%, to take effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

Due to the exceptional adverse impact of the COVID-19 pandemic, the Group continued to experience significant losses during the year ended 31 December 2021. Therefore, there have been no quarterly instalment payments made in relation to corporation tax for the year ended 31 December 2021. In 2021 Heathrow Airport Ltd submitted a loss carry back claim to carry back all trading losses arising in Heathrow Airport Ltd in the 2020 period against 2019 taxable profits. The impact of the loss carry back claim (a tax credit of £100 million) was reflected in the tax results of the Group for the year ended 31 December 2020.

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

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

6. PROPERTY, PLANT AND EQUIPMENT

	Terminal complex	Airfields	Plant and equipment	Other land and buildings	Rail	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
1 January 2020	11,937	2,016	996	274	1,395	1,268	17,886
Additions	-	-	-	-	-	413	413
Borrowing costs capitalised	-	-	-	-	-	33	33
Disposals	(16)	(8)	(25)	-	(1)	-	(50)
Capital write-off	-	-	-	-	-	(92)	(92)
Transfer from investment properties	-	-	-	1	-	-	1
Transfer to intangible assets	-	-	-	-	-	(50)	(50)
Transfer to completed assets	286	59	90	21	13	(469)	-
31 December 2020	**12,207**	**2,067**	**1,061**	**296**	**1,407**	**1,103**	**18,141**
Additions	**-**	**-**	**-**	**-**	**-**	**285**	**285**
Borrowing costs capitalised	**-**	**-**	**-**	**-**	**-**	**10**	**10**
Disposals	**(2)**	**-**	**(2)**	**(1)**	**(174)**	**-**	**(179)**
Capital write-off	**-**	**-**	**-**	**-**	**-**	**(24)**	**(24)**
Transfer to investment properties	**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Transfer to intangible assets	**-**	**-**	**-**	**-**	**-**	**(18)**	**(18)**
Reclassification	**-**	**-**	**-**	**29**	**-**	**(29)**	**-**
Transfer to completed assets	**71**	**(14)**	**44**	**48**	**-**	**(149)**	**-**
31 December 2021	**12,276**	**2,053**	**1,103**	**372**	**1,233**	**1,177**	**18,214**
Depreciation							
1 January 2020	**(4,641)**	**(504)**	**(475)**	**(88)**	**(617)**	**-**	**(6,325)**
Depreciation charge	(495)	(57)	(118)	(20)	(40)	-	(730)
Disposals	16	8	25	-	1	-	50
31 December 2020	**(5,120)**	**(553)**	**(568)**	**(108)**	**(656)**	**-**	**(7,005)**
Depreciation charge	**(497)**	**(59)**	**(94)**	**(21)**	**(49)**	**-**	**(720)**
Disposals	**2**	**-**	**2**	**1**	**160**	**-**	**165**
31 December 2021	**(5,615)**	**(612)**	**(660)**	**(128)**	**(545)**	**-**	**(7,560)**
Net book value							
31 December 2021	**6,661**	**1,441**	**443**	**244**	**688**	**1,177**	**10,654**
31 December 2020	7,087	1,514	493	188	751	1,103	11,136

The Regulatory Asset Base (RAB) at 31 December 2021 was £17,474 million (31 December 2020 was £16,492 million).

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

7. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2020	2,522
Additions	9
Reclassification	(1)
Revaluation	(412)
31 December 2020	**2,118**
Additions	**4**
Reclassification	**1**
Revaluation	**174**
31 December 2021	**2,297**

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

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

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

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

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

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

The investment property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 68% (2020: 68%) of the fair value of the investment property portfolio at 31 December 2021. The valuation of maintenance hangers is largely based on long term contractual terms and are not occupied by the group. They are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

The investment property asset class balance consists of 49% (2020: 48%) car parks, 23% (2020: 25%) airport operations and 28% (2020: 27%) land and others. Level 2 to 3 is split according to the following percentiles respectively: 59% (2020: 59%) and 41% (2020: 41%).

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

8. BORROWINGS

	31 December 2021 £m	31 December 2020 £m
Current		
Secured		
Heathrow Airport Limited debt:		
Loans	-	4
Class A1 term loan due 2021	-	418
Heathrow Funding Limited bonds:		
£250m Bond 8.5% due 2021	-	251
3.000% CAD450m due 2021	-	259
4.875% US$1,000 million due 2021	-	742
1.650%+RPI £180 million due 2022	234	-
1.875% €600 million due 2022	507	-
Total current (excluding interest payable)	**741**	1,674
Interest payable – external	203	209
Interest payable – owed to group undertakings	64	45
Total current	**1,008**	1,928
Non-current		
Secured		
Heathrow Funding Limited bonds		
1.650%+RPI £180 million due 2022	-	222
1.875% €600 million due 2022	-	549
5.225% £750 million due 2023	732	717
7.125% £600 million due 2024	597	595
0.500% CHF400 million due 2024	326	336
3.250% C$500 million due 2025	294	301
1.500 % €750 million due 2025	625	665
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	170	177
6.750% £700 million due 2026	695	694
2.650% NOK1,000 million due 2027	84	90
2.694% C$650 million due 2027	379	-
3.400% C$400 million due 2028	233	229
7.075% £200 million due 2028	199	199
4.150% A$175 million due 2028	99	113
2.625% £350 million due 2028	346	-
2.500% NOK1,000 million due 2029	77	82
2.750 % £450 million due 2029	445	444
1.500% €750 million due 2030	656	735
3.782% C$400 million due 2030	235	235
1.125% €500 million due 2030	414	-
6.450% £900 million due 2031	860	857
3.661% C$500 million due 2031	291	285
Zero-coupon €50 million due January 2032	63	65
1.366%+RPI £75 million due 2032	92	88
Zero-coupon €50 million due April 2032	62	64
1.875% €500 million due 2032	418	446
2.850% + RPI £181.75 million due 2032	192	182
3.726% C$625 million due 2033	371	-
1.875% €650 million due 2034	555	636
4.171% £50 million due 2034	50	50

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

8. BORROWINGS *CONTINUED*

	31 December 2021 £m	31 December 2020 £m
Zero-coupon €50 million due 2034	52	54
0.347%+RPI £75 million due 2035	80	76
0.337%+RPI £75 million due 2036	80	76
1.061%+RPI £180 million due 2036	216	204
0.419%+RPI £51 million due 2038	54	51
3.460% £105 million due 2038	105	105
1.382%+RPI £50 million due 2039	61	58
Zero-coupon €86 million due 2039	78	81
3.334%+RPI £460 million due 2039	679	645
0.800% JPY1,000 million due 2039	64	72
1.238%+RPI £100 million due 2040	121	115
0.362%+RPI £75 million due 2041	80	76
3.500% A$125 million due 2041	67	-
5.875% £750 million due 2041	739	739
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	92	87
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	175	166
Total bonds	**13,647**	13,005
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	199
Revolving credit facilities	-	1,150
Term notes due 2026-2040	928	878
Loans	-	4
Unsecured		
Debenture payable to Heathrow Finance plc	3,466	3,299
Total non-current	**18,341**	18,635
Total borrowings (excluding interest payable)	**19,082**	20,309

At 31 December 2021, SP Group consolidated nominal net debt was £13,332 million (2020: £13,131 million). It comprised £14,327 million (2020: £13,755 million) in bond issues, £1,230 million (2020: £1,606 million) in other term debt, £381 million (2020: £133 million) in index-linked derivative accretion, £nil million (2020: £1,150 million) in revolving credit and working capital facilities and £20 million (2020: £3 million) of additional lease liabilities post transition to IFRS 16. This was offset by £2,626 million (2020: £3,516 million) in cash and cash equivalents and term deposits. Nominal net debt comprised £11,294 million (2020: £11,279 million) in senior net debt and £2,038 million (2020: £1,851 million) in junior debt.

At 31 December 2021, total non-current borrowings due after more than 5 years was £11,083 million (2020: £10,703 million), comprising £10,055 million (2020: £9,626m) of bonds and £1,028 million (2020: £1,077 million) in bank facilities, excludes lease liabilities.

Interest Rate Benchmark Reform

Certain borrowings have payments that are linked to LIBOR. With LIBOR being replaced as an interest rate benchmark by alternative reference rates (ARR's), negotiations and repapering have now concluded to amend these contracts to reference the ARR applicable.

At 31 December 2021, all of the market facing cash exposures have been transitioned to the alternative reference rates ahead of the cessation of LIBOR, including all the bilateral amendments of loans with related counterparties, and the groups borrower loan agreements (BLA's). As a result, £1,868 million of floating GBP LIBOR-linked debt has been transitioned to SONIA as the alternative sterling risk free rate replacing GBP LIBOR. In addition, the disclosure of fair value of these borrowings designated as amortised cost will be impacted due to the change in applying an alternative reference rate discount curve.

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

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was EUR 2,000 million, C$ 1,070 million, CHF 610 million, A$ 175 million, JPY 10,000 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	31 December 2021		31 December 2020	
	Nominal at hedge rate £m	**Fair value adjustment[1] £m**	Nominal at hedge rate £m	Fair value adjustment[1] £m
Sterling debt	-	-	393	(1)
Euro denominated debt	1,615	(52)	1,615	(145)
USD denominated debt	-	-	621	(10)
CAD denominated debt	337	(5)	584	(25)
Other currencies debt	780	2	779	(23)
Designated in fair value hedge	**2,732**	**(55)**	3,992	(204)

(1) Fair value adjustment is comprised of fair value loss of £46 million (year ended December 2020: £185 million) on continuing hedges and £9 million loss (year ended December 2020: £19 million) on discontinued hedges.

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

31 December 2020	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts	31	1	-	1
Cross-currency swaps	868	144	-	144
Index-linked swaps	326	1	(21)	(20)
	1,225	146	(21)	125
Non-current				
Foreign exchange contracts	62	-	(3)	(3)
Interest rate swaps	6,844	33	(431)	(398)
Cross-currency swaps	4,656	547	(47)	500
Index-linked swaps	5,756	76	(653)	(577)
	17,318	656	(1,134)	(478)
Total	18,543	802	(1,155)	(353)

At 31 December 2021, total non-current notional value of Derivative financial instruments due in greater than 5 years was £13,543 million (2020: £14,170 million), comprising £4,777 million (2020: £4,926 million) of index-linked swaps, £4,013 million (2020: £2,942 million) of cross-currency swaps, and £4,753 million (2020: £6,302 million) of interest rate swaps. The Group reprofiled a proportion of existing interest rate and inflation swaps and completed a series of new interest rate transactions which will help to reduce interest payments over the next few years. This gives rise to fair value differences at inception or restructuring of derivatives between the transaction price and calculated fair value of the derivatives.

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

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

Interest rate swaps

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

Of the total amount deferred in other comprehensive income gross of tax was £183 million (2020: £205 million) related to discontinued cash flow hedges. During the year, £22 million recycled from the frozen cash flow hedge reserve to the income statement in the period.

Losses deferred of £21 million (2020: £20 million) expected to be released in less than one year, £21 million (2020: £22 million) between one and two years, £62 million (2020: £64 million) between two and five years and £79 million (2020: £99 million) over five years.

Cross-currency swaps

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on certain swaps in cash flow hedge relationships will be continuously released to the income statement over the period to maturity of the hedged bonds. The gains deferred of £43 million, of which of £7 million (2020: £1 million) are expected to be released in less than one year, losses of £7 million (2020: £1 million) between one and two years, £22 million (2020: £1 million) between two and five years and gains of £7 million (2020: £6 million) over five years.

Index-linked swaps

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

Foreign exchange contracts

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

Fair value estimation

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

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

At 31 December 2021 and 2020, all fair value estimates on derivative financial instruments are included in level 2.

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

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

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

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

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

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

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

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

As at 31 December 2021, £234 million (31 December 2020: £261 million) remained capitalised and £27 million (31 December 2020: £28 million) had been recognised in the income statement for the period.

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

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

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

	31 December 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Assets at fair value through income statement	-	154	-	154
Derivatives qualifying for hedge accounting	-	648	-	648
Total assets	-	802	-	802
Liabilities				
Liabilities at fair value through income statement	-	(1,109)	-	(1,109)
Derivatives qualifying for hedge accounting	-	(46)	-	(46)
Total liabilities	-	(1,155)	-	(1,155)

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

10. RETIREMENT BENEFIT OBLIGATIONS

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

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

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Employment costs:		
Defined contribution schemes	12	14
BAA Pension Scheme	22	24
Past service credit - BAA Pension Scheme	-	(53)
	34	(15)
Finance credit - BAA Pension Scheme	-	-
Finance charge - Other pension and post retirement liabilities	-	-
Total pension charge/(credit)	**34**	(15)

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
BAA Pension Scheme gain/(loss)	355	(125)
Unfunded schemes	-	(2)
Actuarial gain/(loss) recognised before tax	355	(127)
Tax (charge)/credit on actuarial gain or loss	(90)	23
Actuarial gain/(loss) recognised after tax	**265**	(104)

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Fair value of plan assets	4,886	4,796
Benefit obligation	(4,543)	(4,784)
Surplus in BAA Pension Scheme	343	12
Unfunded pension obligations	(29)	(30)
Post-retirement medical benefits	(1)	(1)
Deficit in other pension related liabilities	(30)	(31)
Net surplus/(deficit) in pension schemes	**313**	(19)
Group share of net surplus/(deficit) in pension schemes	**313**	(19)

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.

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

10. RETIREMENT BENEFIT OBLIGATIONS *CONTINUED*

(a) BAA Pension Scheme

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

The value placed on the Scheme's obligations as at 31 December 2021 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 31 December 2021 by ISIO Group Limited to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The valuation performed at 31 December 2021 takes account of the changes in scheme membership from special events in the year, being the scheme curtailment and settlement giving rise to past service costs as noted above. The Scheme assets are stated at their bid value at 31 December 2021. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

	Year ended 31 December 2021 £m			Year ended 31 December 2020 £m		
Fair value of plan assets[1]	**Quoted**	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equity	**185**	**179**	**364**	620	166	786
Property	**-**	**166**	**166**	-	149	149
Bonds	**502**	**1,051**	**1,553**	476	878	1,354
Cash	**-**	**155**	**155**	-	191	191
LDI	**-**	**2,024**	**2,024**	-	1,545	1,545
Buy in	**-**	**311**	**311**	-	339	339
Other	**-**	**313**	**313**	164	268	432
Total fair value of plan assets	**687**	**4,199**	**4,886**	1,260	3,536	4,796

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

At 31 December 2021, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £2,024 million (41% of the asset holding at 31 December 2021). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk. At 31 December 2020, the largest single category of investment was an LDI mandate, with value of £1,545 million (32% of the asset holding at 31 December 2020).

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

Analysis of financial assumptions

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

	Year ended 31 December 2021 %	Year ended 31 December 2020 %
Rate of increase in pensionable salaries	**1.90**	1.90
Increase to deferred benefits during deferment	**3.00**	2.60
Increase to pensions in payment:		
Open section	**3.40**	3.00
Closed section	**3.50**	3.10
Discount rate	**1.80**	1.30
Inflation assumption	**3.50**	3.10

11. CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss before tax	**(1,792)**	(2,012)
Exceptional items	31	184
Loss before tax and exceptional items	**(1,761)**	(1,828)
Adjustments for:		
Net finance cost	1,522	874
Depreciation	720	730
Amortisation on intangibles	37	44
Amortisation on right of use assets	40	38
Fair value (gain)/loss on investment properties	(174)	412
Working capital changes:		
Decrease/(increase) in inventories and trade and other receivables (1)	284	(240)
(Decrease)/increase in trade and other payables	(66)	56
Decrease in provisions	-	(5)
Difference between pension charge and cash contributions	22	(51)
Cash generated from operations before exceptional items	**624**	30
Cash payments in respect of exceptional items	(11)	(125)
Cash generated from/(used in) operations	**613**	(95)

(1) Within cash used in operations for the year ended 31 December 2020, the increase in trade and other receivables included £247 million relating to supplier prepayments, of which £60 million related to the advance payment of 2021 payroll taxes to HMRC. In addition, a further £11 million of lease liability prepayments were made, and were included within cash flows from financing activities. These prepayments were made in order to manage banking covenant ratios and all fully unwound during 2021.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Contracted for, but not accrued:		
Baggage systems	35	49
Terminal restoration and modernisation	59	78
Tunnels refurbishments	65	28
Capacity optimisation	9	27
IT projects	15	2
Other projects	1	8
	184	192

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

Contingent liabilities

As at 31 December 2021 the Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £2 million at 31 December 2021 (2020: £1 million).

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

13. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Ferrovial Agroman	50	28
Heathrow Finance plc [1]	184	125
	234	153

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

Sales to related party	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Harrods International Limited	3	6
Qatar Airways	23	22
	26	28

Balances outstanding with related parties were as follows:	31 December 2021		31 December 2020	
	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Heathrow Finance plc	-	3,530	-	3,344
	-	**3,530**	-	3,344

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

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs)

Alternative Performance Measures

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

EBITDA

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss for the period	**(1,613)**	(1,785)
Less: tax credit	(179)	(227)
Add: net finance cost	1,522	874
Operating loss	(270)	(1,138)
Add: depreciation and amortisation	797	812
EBITDA	**527**	(326)

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

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

Adjusted EBITDA

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation, fair value gains and losses on investment properties and exceptional items. Fair value gains and losses on investment properties are excluded as they can vary significantly from one year to the next due to market perceptions of the value of the property and the accounting method used to calculate the fair value. Exceptional items in the current year include impairment of Fixed assets and AICC, while 2020 was also inclusive of restructuring costs. These are excluded due to their size and the fact that they are not representative of a normal trading year. Adjusted EBITDA is an approximation of pre-tax operating cash flow and reflects cash generation before changes in working capital and investment. The APM assists investors to value the business (valuation using multiples) and rating agencies and creditors to gauge levels of leverage by comparing Adjusted EBITDA with net debt.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss for the period	**(1,613)**	(1,785)
Less: tax credit	(179)	(227)
Add: net finance cost	1,522	874
Operating loss	(270)	(1,138)
Add: depreciation and amortisation	797	812
Add: exceptional items	31	184
Add: fair value (gain)/loss on investment properties	(174)	412
Adjusted EBITDA	**384**	270

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Cash generated from/(used in) from operations	**613**	(95)
Exclude:		
(Decrease)/increase trade and other receivables	(283)	239
(Decrease)/increase in inventories	(1)	1
Decrease/(increase) in trade other payables	66	(56)
Decrease in provisions	-	5
Difference between pension charge and cash contributions	(22)	51
Cash payments in respect of exceptional items	11	125
Adjusted EBITDA	**384**	270

Adjusted operating loss

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Operating loss (1)	**(270)**	(1,138)
Add: exceptional items	31	184
Add: fair value (gain)/loss on investment properties	(174)	412
Adjusted operating loss	**(413)**	(542)

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

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

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

Net finance cost before certain re-measurements

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Finance income	7	12
Finance cost	(1,529)	(886)
Net finance cost including certain re-measurements	**(1,522)**	(874)
Add: fair value loss arising on re-measurement of financial instruments	665	202
Net finance cost before certain re-measurements	**(857)**	(672)

Adjusted loss before tax

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss before tax	**(1,792)**	(2,012)
Add: exceptional items	31	184
Add: fair value (gain)/loss on investment properties	(174)	412
Add: fair value loss arising on re-measurement of financial instruments	665	202
Adjusted loss before tax	**(1,270)**	(1,214)

Adjusted loss after tax

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss after tax	**(1,613)**	(1,785)
Add: exceptional items	31	184
Add: fair value (gain)/loss on investment properties	(174)	412
Add: fair value loss arising on re-measurement of financial instruments	665	202
Less: tax credit on fair value loss on investment properties and re-measurement of financial instruments	(139)	(110)
Less: tax credit on exceptional items	-	(18)
Add: change in tax rate	214	112
Adjusted loss after tax	**(1,016)**	(1,003)

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

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

Heathrow (SP) Limited consolidated nominal net debt

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

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Net debt	(16,827)	(17,185)
Index-linked swap accretion [1]	(381)	(133)
Impact of cross-currency interest rate swaps [2]	124	591
Bond issuance costs [3]	(65)	(92)
Less: IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases [4]	351	389
Less: Intercompany	3,466	3,299
Consolidated nominal net debt	**(13,332)**	(13,131)

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

Regulatory Asset Base (RAB)

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Regulatory Asset Base (RAB)	**17,474**	16,492

Regulatory gearing ratio

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Total net debt to RAB	0.763	0.796
Senior net debt to RAB	0.646	0.684

GLOSSARY

ADIF 2 - ADI Finance 2 Limited

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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