ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

HEATHROW AIRPORT HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS

These specific accounts include the Financial Review, Directors Report, Directors Responsibility Statement, and the Financial Statements with the remainder of the Strategic and Governance Reports being exactly the same as the Heathrow (SP) Ltd Annual report and Accounts except for the items shown in the change log below:

Change log from Heathrow (SP) Annual Report and Accounts	
Page	**Changes**
Footer throughout	Remove HEATHROW (SP) LIMITED
Cover page	Change Heathrow (SP) Limited to Heathrow Airport Holdings Limited and add 'COMPANY REGISTRATION NUMBER: 05757208' below the annual report and accounts.
Contents p3	Page numbers for Financial Report will be updated.
Key Performance Indicators p10	Will remove 2011 from all indicators
	Adjusted EBITDA for 2021 £387m resulted in a 42.3% increase in Adjusted EBITDA 2020 comparative £272m 2019 comparative £1,922m 2018 comparative £1,840m
	Loss before tax for 2021 £(1,767)m 2020 comparative £(1,985)m 2019 comparative £577m 2018 comparative £484m
	Consolidated nominal net debt for 2021 £15,421m Net debt increased by 2.2% in the year Will remove: "Senior (Class A) and junior (Class B) gearing ratios, calculated by dividing consolidated nominal net debt by RAB, were 65.0% and 76.4% respectively (31 December 2020: 68.4% and 79.6% respectively)." 2020 comparative £15,081m 2019 comparative £14,355m 2018 comparative £13,956m87
	Page number for APMs in footnote 1 and 2 will be updated Footnote 3 relating to 2011 comparatives will be removed
Performance against Strategic Priorities - Beat the Plan p29	Adjusted EBITDA for 2021 £387m. 2020 comparative £272m 2019 comparative £1,922m
Expansion p44	Page number referencing critical accounting judgements will be updated.
Our Approach to Capital Allocation p54	Will change the last paragraph to: In 2021, due to the impact of COVID-19, no dividends were paid to ADI Finance 2 Limited (2020: £100 million).
Our approach to taxation p56	Will remove the 'Total Tax Contribution' section, pie chart and 'Cash Tax Contribution By Type'.
TCFD p66, p69 and p70	Page number referencing accounting policies will be updated.

Section 172(1) Statement p76	Change the narrative on this page to: Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, they must have regard to the range of factors set out in section 172(1)(a)-(f) in the Companies Act 2006. In discharging our section 172 duty we, the directors of the Company, have regard to such factors and take them into consideration when decisions are made. We also have regard to other factors which we consider relevant to the decision being made. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's vision, purpose and values together with its strategic priorities, as shown in our Strategic Framework on page 24, and having a process in place for decision-making we aim to ensure that our decisions are consistent and predictable. As is normal for large companies, we delegate authority for day-to-day management of the Company and other subsidiaries in the HAHL Group to the Executive Committee and then engage management in setting, approving and overseeing execution of the business strategy and related policies. The HAHL Board is responsible for embedding culture throughout the airport that will help deliver long-term success to the Company. It is also responsible for setting policies and the corporate governance structure of the HAHL Group. The HAHL Board meets monthly and regularly reviews health and safety, people engagement and performance, financial and operational matters, business performance, growth and expansion plans, sustainability and environmental issues and legal and regulatory compliance. Other areas reviewed over the course of the year include the Company's business strategy, key risks and opportunities, stakeholder-related matters, diversity and inclusivity, corporate responsibility and governance. For details on how the HAHL Board operates and the way in which it reaches decisions, including some of the matters that were discussed and debated during the year, please see the pages 92 to 101. The discussion on Heathrow's recent COVID-19 response, within Our Strategy on page 24, provides an illustrative example of how the Board takes stakeholder views, and the impact on stakeholders, into account in its decision-making. The Company's key stakeholders are its passengers, communities and the environment, colleagues, airlines, investors, suppliers and commercial partners and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions. The size and spread of both our stakeholders and the HAHL Group means that generally our stakeholder engagement best takes place at an operational or HAHL Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues. For details of some of the engagement that takes place at an operational or HAHL Group level with the Company's stakeholders, please see the HAHL stakeholder table on the following pages.

	During the period we received information to help us understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, ESG (environmental, social and corporate governance) matters and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote success of the company. We set out below some examples of how we have had regard to the matters set out in section 172(1)(a) - (f) when discharging our section 172 duty and the effect of that on decisions taken by us.
Section 172(1) Statement: Key Decisions Made by the Directors of the Company p77	Will remove this section
Group Structure p84	Will change the first paragraph to: Heathrow Airport Holdings Limited (the 'Company' or 'HAHL') is a holding company of a group of companies (the 'HAHL Group') that owns Heathrow Airport ('Heathrow') and operates the Heathrow Express Rail Service. Will delete the following paragraph: As the functions of the HAHL Board and its committees are applied equally to all subsidiaries of the HAHL Group, including Heathrow (SP), the discussion in the Corporate Governance section relating to the governance structure and composition of the HAHL Board and its committees has been extracted from the financial statements of Heathrow Airport Holdings Limited.
Chairman's introduction p92	In the fifth paragraph change 'Heathrow (SP) Limited' to "Heathrow Airport Holdings Limited"
Audit Committee p102	Key Judgement: Valuation of the retirement benefit obligation: Will change reference from note 18 to 20 Key Judgement: Fair value of derivative financial instruments: Will change reference from note 16 to 18.
Finance Committee p114	Roles and responsibilities': Last bullet point: Change reference from note 15 to 17
Financial statements p120	Page numbers for Financial Report will be updated.

FINANCIAL REVIEW

Year ended 31 December	2021 £m	2020 £m
Revenue	**1,214**	1,175
Adjusted operating costs [1]	**(827)**	(903)
Adjusted EBITDA [2]	**387**	272
Depreciation and amortisation	**(802)**	(820)
Adjusted operating loss [3]	**(415)**	(548)
Net finance costs before certain remeasurements and exceptional items	**(830)**	(639)
Adjusted loss before tax [4]	**(1,245)**	(1,187)
Tax credit on profit before certain remeasurements and exceptional items	**252**	208
Adjusted loss after tax [4]	**(993)**	(979)
Including certain remeasurements and exceptional items[5]		
Fair value gain/(loss) on investment properties	**174**	(412)
Fair value loss on financial instruments	**(665)**	(202)
Exceptional items	**(31)**	(184)
Tax (charge)/credit on certain remeasurements and exceptional items	**(57)**	22
Loss after tax	**(1,572)**	(1,755)

(1) Adjusted operating costs excludes depreciation, amortisation and fair value adjustments on investment properties and exceptional items which are explained *further in Note 3.*

(2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties and exceptional items.

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

(4) Adjusted loss before and after tax excludes fair value adjustments on investment properties and financial instruments, exceptional items and the associated tax impact of these including the impact of the UK corporation tax change.

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

BASIS OF PRESENTATION OF FINANCIAL RESULTS

Heathrow Airport Holdings Limited ('HAHL') 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 Airport Holdings Limited'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 138-139.

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. A reconciliation of our APMs has been included on page 216.

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 42.3% to £387 million (2020: £272 million). The Group recorded a £1,572 million loss after tax* (2020: £1,755 million loss). 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 £1,572 million loss after tax (2020: £1,755 million).

REVENUE

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

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

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

RETAIL REVENUE

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

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

OTHER REVENUE

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

Other revenue increased by 50.7%. Other regulated charges increased 151.7% predominantly due to revenue under-recovered in the prior period 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 targeted rental alleviation agreements for vendors with consolidated operations with rental charges being spread forward over the residual life of the relevant contracts.

ADJUSTED OPERATING COSTS

Adjusted operating costs decreased 8.4% to £827 million (2020: £903 million). Operating costs decreased 12.9% during the fourth quarter in isolation compared to the same period last year.

Year ended 31 December	2021 £m	2020 £m	Var. %
Employment	**267**	290	(7.9)
Operational	**197**	225	(12.4)
Maintenance	**134**	140	(4.3)
Rates	**120**	116	3.5
Utilities and other	**109**	132	(17.4)
Adjusted operating costs	**827**	903	(8.4)

Adjusted operational costs decreased by over 8% in 2021, while UK prices increased 7.5% (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 the Q4 in isolation, the costs increased 18% due to business resilience costs and additional operational ramp-up costs, including costs associated with recommencing our operations through Terminals 3 and 4.

Despite a significant 76% reduction in traffic versus 2019, Government business rates have increased by 3.5%, evidencing limited government support.

OPERATING LOSS AND ADJUSTED EBITDA

At the year ended 31 December 2021, the Group recorded an operating loss of £272 million (2020: operating loss of £1,144 million The 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 42.3% to £387 million (2020: £272 million), resulting in an Adjusted EBITDA margin of 31.9% (2020: 23.1%).

Year ended 31 December	2021 £m	2020 £m
Operating loss	**(272)**	(1,144)
Depreciation and amortisation	**802**	820
EBITDA	**530**	(324)
Exceptional items[1]	**31**	184
Exclude fair value (gain)/loss on investment properties	**(174)**	412
Adjusted EBITDA	**387**	272

[1]Please see exceptional items section for further information

EXCEPTIONAL ITEMS

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

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

As a consequence of the continued impact of the COVID-19 pandemic, the Group 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 year ended 31 December 2021, the Group recorded a loss before tax of £1,767million (2020: £1,985 million loss) and a loss after tax of £1,572 million (2020: £1,755 million loss).

Year ended 31 December	**2021** **£m**	2020 £m
Operating loss	**(272)**	(1,144)
Net finance costs before certain remeasurements	**(830)**	(639)
Fair value (loss)/gain on financial instruments	**(665)**	(202)
Loss before tax	**(1,767)**	(1,985)
Taxation credit	**195**	230
Loss after tax	**(1,572)**	(1,755)

Net finance costs before certain re-measurements were £830 million (2020: £639 million due to high inflation as RPI indexation grew to 7.1% for the 12-months to December 2021, up from 1.5% in the same prior period, offset by interest income on the recent restructure and the recent interest rate rise in response to surging inflation.

Fair value losses on financial instruments increased to £665 million (2020: £202 million loss) as a result of increasing RPI indexation and the continued upward shift along the 1-20yr RPI curve, together with an upward shift along the 6-month LIBOR curve as a result of the recent base interest rate rises announces by the Bank of England.

TAXATION

The tax credit before certain re-measurements and exceptional items for the year ended 31 December 2021 was £252 million (2020: £208 million). Based on a loss before tax, certain re-measurements and exceptional items of £1,245 million (2020: £1,187 million), this results in an effective tax rate of 20.2% (2020: 17.5%).

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 £195 million (2020: £230 million), representing the sum of the tax credit on losses before certain remeasurements and the tax charge on certain re-measurements and exceptional items. For the period, the Group paid £1 million in corporation tax in the year (12 months ended 31 December 2020: received £69 million).

CASH POSITION

In the 12 months ended 31 December 2021, there was a decrease of £93 million in cash and cash equivalents compared with a decrease of £507 million in the 12 months ended 31 December 2020.

At 31 December 2021, the Group had £2,901 million (31 December 2020: £3,930 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £251 million (31 December 2020: £344 million).

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

CASH GENERATED/(USED IN) FROM OPERATIONS
In the 12 months ended 31 December 2021, cash generated from operations increased to £594 million (2020: negative £69 million). The following table reconciles Adjusted EBITDA to cash generated from operations:

Year ended 31 December	**2021**	2020
	£m	£m
Cash (used in)/generated from operations	**593**	(69)
Exclude:		
Increase/(decrease) in receivables[1]	**(263)**	205
Increase in inventories	**(1)**	1
(Increase)/decrease in payables	**69**	(46)
Decrease in provisions	**-**	5
Difference between pension charge and cash contributions	**(22)**	51
Cash payment in respect of exceptional items	**11**	125
Adjusted EBITDA	**387**	272

[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 debtor

CAPITAL EXPENDITURE
Total capital expenditure in 2021 was £289 million (2020: £423 million) excluding capital creditors movements, which equates to capital additions of £248 million (2020: £521 million) including capital creditor 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 included Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Since 2016, we have invested £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.

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 further repayment 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 public bond in July.
- the scheduled repayment of the £418 million A1 private debt facility.
- the repayment of £800 million in revolving credit facility and £100 million in working capital facility.

Class B financing activities included:
- a new £350 million public bond maturing in 2028.
- a new £50 million private placement maturing in 2036.
- the repayment of the £250 million in revolving credit facility.

During the year, new interest rate swaps with a notional of £0.8 billion were executed in continuation of the theme where the Group will receive fixed coupon and pay SONIA with a spread close to zero for 2021 and 2022, where possible and an additional £0.4 billion executed to maintain hedging ratio compliance. This resulted in a fair value of £6 million (cost) at initial recognition and deferred on the balance sheet.

FINANCING POSITION

DEBT AND LIQUIDITY

At 31 December 2021, the Group's consolidated nominal net debt was £15,421 million (2020: £15,081 million). It comprised £15,452 million in bond issues, £2,469 million in other term debt, £381 million in index-linked derivative accretion, £nil (2020: £1,150 million) in revolving credit and working capital facilities and £20 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,901 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,294 million in senior net debt, £2,038 million in junior debt, £2,108 million in Heathrow Finance net debt and £19 million in restricted cash.

The average cost of the Group's nominal gross debt at 31 December 2021 was 1.72% (31 December 2020: 1.37%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, the average cost of debt at 31 December 2021 was 3.79% (31 December 2020: 1.89%). The increase in the average cost of debt since the end of 2020 is mainly due to an increase in inflation, partially offset by savings from further swap reprofiling in the year. Excluding the impact of our swap portfolio reprofiling the Group's average cost of debt at 31 December 2021 was 2.84% excluding index-linked accretion and 4.91% including index-linked accretion.

The average remaining life of the Group's gross debt as at 31 December 2021 was 10.0 years (2020: 10.0 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 The Group'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 until at least February 2023 under the extreme stress-test scenario of no revenue, or well into 2023 under our current traffic forecast. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2,882 million in cash resources as well as undrawn debt and liquidity as at 31 December 2021.

FINANCIAL RATIOS

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

At 31 December 2021, Heathrow's RAB was £17,474 million (31 December 2020: £16,492 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 64.6% and 76.3% respectively (31 December 2020: 68.4% and 79.6% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 88.5% (31 December 2020: 91.7%) with a covenant of 95% 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 current regulatory business plan (Revised Business Plan Update 2 – "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 £23 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 20.

Bulk Purchase Annuity Policy

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

Javier Echave
Chief Financial Officer
23 February 2022

HEATHROW AIRPORT HOLDINGS LIMITED DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of Heathrow Airport Holdings Limited is as the holding company of a group of companies that own Heathrow Airport Limited, and operate the Heathrow Express rail service.

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

RESULTS AND DIVIDENDS

The loss after taxation for the financial year amounted to £1,572 million (2020: £1,755 million).

Dividends of £nil (2020: £100 million, £0.02 per share) were paid to ADI Finance 2 Limited during the year.

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

The financial statements have been prepared on a going concern basis with material uncertainty as detailed in the going concern statement on page 138 in the Group's accounting policies.

DIRECTORS

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

Lord Deighton
John Holland-Kaye
Javier Echave
David Begg – Resigned 24 November 2021
Ruth Kelly
Joan MacNaughton – Appointed 14 June 2021
Akbar Abbas Al Baker
Ahmed Ali Al-Hammadi
Stuart Baldwin
Christopher Beale
Luke Bugeja – Appointed 23 June 2021
Maria Casero
Olivier Fortin
Jorge Gil Villen – Resigned 23 June 2021
Ernesto Lopez
Mike Powell
David Xie

Ali Bouzarif (Alternate to Akbar Abbas Al Baker)
Samuel Coxe (Alternate to Chris Beale)
Deven Karnik (Alternate to Ahmed Ali Al-Hammadi)
Gonzalo Velasco Zabalza (Alternate to Jorge Gil, Ernesto Lopez, Luke Bugeja and Maria Casero)
Tom Kelly (Alternate to Mike Powell)
Jinhong Chen (Alternate to David Xie)
Ignacio Castejon Hernandez (Alternate to Jorge Gil, Ernesto Lopez, Luke Bugeja and Maria Casero)
Ignacio Madridejos Fernández (Alternate to Jorge Gil, Ernesto Lopez, Luke Bugeja and Maria Casero)
Kamil Burganov (Alternate to Stuart Baldwin) - Resigned 26 January 2022
Jessie Jin (Alternate to Stuart Baldwin) - Appointed 26 January 2022

COMPANY SECRETARY

The Company Secretary is Mark Oliver, Interim General Counsel. Carol Hui resigned as Company Secretary on 31 August 2021 and Mark Oliver was appointed on 29 September 2021.

EMPLOYMENT POLICIES

The Group has no direct employees. The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the HAHL Group. The Group directly incurs the employment cost of services provided to the Group as stated in the Accounting policies on page 154.

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

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

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

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

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

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

EMPLOYEE ENGAGEMENT STATEMENT

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

STAKEHOLDER ENGAGEMENT STATEMENT

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

STREAMLINED ENERGY AND CARBON REPORTING

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

SUBSEQUENT EVENTS

Subsequent events are disclosed in note 30.

FINANCIAL RISKS

Details of the financial risk management objectives and policies, hedging policies and exposure to financial risks can be found in the accounting policies and note 18.

POLITICAL DONATIONS

No political donations were made during the year.

DIRECTORS' INDEMNITY

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

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

Matters disclosed in strategic report	Page
Environmental matters	
• Sustainable growth	31
• Business resilience	60
• Corporate social responsibility	60
• Streamlined energy and carbon reporting	36
Colleagues	
• Colleague policies	43, 116
• Health and safety	60
Anti-corruption and bribery policy	97
Social matters – charitable donations	42
Security of the airport and passengers	60
Leadership and governance	93
Description of our principal risks	
• Business	60
• Financial management	104
Description of our business model	14
Non-financial performance indicators	216
Research and development and innovation	33

AUDITOR

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

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

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

JAVIER ECHAVE
DIRECTOR
23 February 2022
Company registration number 05757208

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

DIRECTORS' CONFIRMATIONS

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

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

JAVIER ECHAVE
DIRECTOR
23 February 2022

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

Report on the audit of the financial statements

Opinion

In our opinion:

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

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

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the going concern section of the accounting policies to the financial statements concerning the group's and the company's ability to continue as a going concern. Heathrow continues to be significantly impacted by the COVID-19 pandemic which has resulted in a deterioration in passenger traffic and cash flows. The group's forecast and projections assume the regulatory tariffs as described in the going concern section on page 138 and a gradual recovery in the passenger number forecast in the going concern period which still represents a significant reduction to historical revenue levels. In addition, the group has been impacted by uncertainties in relation to the confirmation of their regulatory pricing from the Civil Aviation Authority (CAA) for the upcoming regulatory period (H7). In the event there are further waves of the pandemic, or the implementation or continuation of local lockdown periods, leading to further travel restrictions being imposed worldwide, the group and company, whilst having sufficient liquidity, may require covenant waivers in respect to the interest cover ratio (ICR) measured as at 31 December 2022. These conditions, along with the other matters explained in those notes to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

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

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

Our audit approach

Context

This is our second year as auditors of the group and COVID-19 has again had a significant impact on the group and our audit. The impact has been relevant both in relation to our assessment of the audit risks, as well as the way we have planned to execute our work in what has been a largely remote working environment. The pandemic continues to present significant trading challenges, as described in the business review section, with travel restrictions having remained in place for much of the year. The uncertainty around travel restrictions and further new COVID-19 variants continues to impact the ability of the group to forecast future cash flows for a business that, pre-pandemic, was relatively stable and predictable.

The group has also implemented a new cloud-based enterprise resource planning (ERP) system in the year. Our audit was, therefore, performed on the legacy system for nine months of the year and on the new system for three months. Together with our IT audit specialists, we assessed the impact of the design and implementation of the new system on the audit and performed audit procedures to respond to any additional risks arising as a result.

This year we also, for the first time in our audit opinion, set out our consideration of the impact of and the audit response to climate change which has been identified by the directors as one of the principal risks faced by the business (described in "Our Principal Risks" section on page 65 above). Climate change risk is expected to continue to have a significant impact on the aviation industry. As explained in the "Task Force for Climate Related Financial Disclosures (TCFD)" section on page 72, the group has articulated the potential impact of climate change on its operations under different potential future scenarios. In addition, the group has disclosed in the 'Our Carbon Footprint section' on page 32, the impact of its own operations on the environment and ways to reduce the group's impact as they continue to work towards their own Net Zero pathway to 2050.

As part of our audit risk assessment, we again explicitly considered the impact of climate change on the financial statements; understood and challenged management's climate risk assessment, together with our climate expert, by reviewing the Heathrow 2.0 Sustainability Strategy and holding discussions with management's climate experts; and considered the consistency of climate related disclosures with the financial statements and knowledge obtained from our audit.

Management has assessed the key financial statement line items and estimates associated with future cash flows to be more likely to be materially impacted by climate risks given that the more notable impacts of climate change on the business are expected to arise in the medium to long term. Together with our climate change experts, we have evaluated management's assessment and have not noted any material impact, as a result of climate change, on the financial statements for the current period. In our key audit matters, we have further explained how we evaluated the impact of climate change on key estimates including the carrying value of Expansion asset under construction; the fair valuation of commercial car parks; the impairment of tangible and intangible assets; and the recoverability of deferred tax assets.

Whilst the group is targeting net zero carbon emissions by 2050, they are continuing to work on their pathway towards this goal. The group has started to quantify some of the impacts that may arise on this pathway; but the future financial impacts are clearly uncertain given the medium to long term time horizon. We discussed with management and the Audit Committee that the estimated financial impacts of climate change will need to be frequently reassessed and our expectation that climate change disclosures will continue to evolve as greater understanding of the actual and potential impacts on the group's future operations is obtained.

Overview

Audit scope

- We performed full scope audit procedures over the company and in support of Group audit opinion, we performed full scope audit procedures over three individually significant components as well as specified audit procedures in relation to one further component.

Key audit matters

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

Materiality

- Overall group materiality: £35m (2020: £40m) representing approximately 2.8% of a 5 year average adjusted EBITDA..
- Overall company materiality: £60.80m (2020: £57m) based on 1% of total assets.
- Performance materiality: £26.25m (2020: £30m) (group) and £45.60m (2020: £43m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of Expansion assets in construction (group) Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 7 in the financial statements. Assets in the course of construction include costs of £513m in respect of the Heathrow expansion following the Government decision in October 2016 in favour of Heathrow, and subsequent Board decision in October 2016 to apply for the Development Consent Order. These two events were considered by the Directors to be a trigger point for the Expansion project to proceed. The Directors subsequently announced publicly that the group would apply for planning permission, in the assessment that it is probable that expansion at Heathrow will be realised. As a result, the group	We performed the following audit procedures in order to assess whether Expansion is probable and therefore assess the risk of impairment: • We challenged management by identifying both the corroborative and contradictory evidence relating to the impairment risk for expansion. This included assessing UK government policy and the status of associated legal challenges, parliamentary and regulatory support and the basis of the views of the Board of Directors; • We considered the political and economic factors for and against expansion and the impact of these on what represents a significant infrastructure project in the UK, including the impact of COVID-19 and climate change both to the aviation industry as a whole and to Heathrow's business plan for expansion.

started to capitalise eligible costs as 'assets in the course of construction'. Costs which are directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity through the Development Consent Order process are capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets. In accordance with IAS 16 - Property, plant and equipment, the cost of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. We focused on Expansion as there is a risk of impairment that may arise in the event that it is not probable that the project will generate future economic benefits.	• Together with our climate change experts, we evaluated the consistency of the corroborative and contradictory evidence with climate change considerations. In particular, we challenged management's use of climate scenarios and their impact on the probability of Expansion. This included evaluating the appropriateness of management's use of the Widespread Innovation scenario published by the UK Climate Change Committee (UK CCC) as described in the TCFD section on page 72 as the base case for probability assessment. • We evaluated whether details regarding the expansion are disclosed appropriately in the financial statements, including significant estimates and judgements to the extent necessary. Based on the above work performed, we have concluded that although the risk of impairment is a finely balanced judgement, we concur with management's view that the asset is not impaired at 31 December 2021.
Valuation of derivative financial instruments - inflation linked swaps including day 1 fair valuation and credit risk adjustment (group) Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 17 in the financial statements. As at 31 December 2021, the group held derivative assets of £446m and derivative liabilities of £2,244m on the balance sheet. Included in these derivative balances were inflation linked swaps totalling £53m assets and £1,479m liabilities. These are held to mitigate interest rate and foreign exchange risk arising on material levels of debt. IFRS 9 "Financial Instruments" requires derivatives to be accounted for at fair value with movements recognised in profit or loss, unless designated in a hedge relationship. Due to the nature and complexity in the valuation involved, we identified a significant risk that the fair value of inflation linked swaps may be misstated. The risk is mainly driven by: • the treatment (being manual in nature) of valuation differences between the consideration paid or received and the system derived fair value on inception or restructuring; and • the application of credit risk (in particular the assumed loss given default percentage) to the valuation due to these derivatives ranking as super senior in the priority of payments.	We, with the support of our Treasury experts, performed the following audit procedures: • Assessed the design and implementation of key controls relating to the valuation of derivatives; • On a sample basis, performed independent valuation testing on the derivatives, including the credit risk adjustment and the new day-1 fair value at 31 December 2021; • Recalculated and assessed the accounting treatment for the day-1 fair value of derivatives in line with IFRS 9 - Financial Instruments and IFRS 13 - *Fair Value Measurement;* • Inspected the documentation supporting the super senior nature of interest rate swaps and inflation linked swaps where a higher recovery rate is used in the valuation and evaluated whether the rate used is in line with the expected market rate; • Obtained third party confirmations from the financial institutions with which the group holds derivative instruments to assess the completeness and valuation of the instruments; • Tested the application and quantum of the recovery rate applied to the super senior derivatives; and • Assessed management's derivative fair value disclosures in the financial statements. The results of our procedures above did not identify any exceptions. We consider management's derivative fair value disclosures in the financial statements to be adequate.
Valuation of investment properties - commercial car parks (group) Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 9 in the financial statements. The value of investment properties is £2,297m as at 31 December 2021, an increase of £179m from 31 December 2020. Investment properties include rental	We engaged our Real Estate Valuation experts to perform specific procedures to assist in our evaluation of whether the assumptions and methodology used in valuing the investment properties (commercial car parks) where appropriate. We performed the following audit procedures:

properties (residential and commercial), car parks, airport lounges and advertising sites. As per the group accounting policies, car parks are accounted for in accordance with IAS 40 "Investment Property". *The car park portfolio represents 49% of the* investment properties balance as at 31 December 2021. We identified a significant risk in relation to the valuation of commercial car parks due to the estimation uncertainty in the passenger forecast assumption, and therefore revenue, applied to discounted cash flow models. The Directors have adopted short term assumptions regarding revenue which are in line with those used within their going concern and goodwill impairment assessments. Other key assumptions include *passenger forecasts, growth rate and operating cost* savings.	• Assessed the design and implementation of key controls relating to valuation of investment properties; • Held discussions with management's expert and management to understand changes to valuations and challenged them on a number of key assumptions such as passenger forecasts, growth rate and capital expenditure, including the impact of climate change on the assumptions. This involved the consideration of potential future fall in demand for driving and, therefore, car parks and increased capital expenditure to install electric charging pods around the car parks; • Assessed management's expert's qualifications and independence and read their terms of engagement to determine whether there were any matters that might affect their objectivity or may have imposed scope limitations upon their work; • Tested information provided to management's expert on a sample basis to assess the completeness and existence of, and group's rights to ownership of the properties within the portfolio; and • Evaluated the adequacy of disclosures in the financial statements. The results of our procedures above did not identify any exceptions. We consider the disclosures in the financial statements to be adequate.
Valuation of retirement benefit obligations and assets (group) Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 18 in the financial statements. At 31 December 2021, the valuation of the BAA Pension Scheme obligation was £4,543m and there are pension plan assets of £4,886m in the Consolidated statement of financial position. The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the Directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation (including discount rates, inflation rates, salary increases and mortality) can have a material impact on the valuation of the pension obligations. Of the £4,886m of pension plan assets, there are more complex pooled investment vehicles (PIVs) as a result of an element of the underlying investments being classified as level 3. As the nature of these assets is more complex; the valuation of these PIVs could have a material impact on the valuation of the pension asset. The Directors have concluded that the group has an unconditional right to a refund under IFRIC 14 and therefore there is no requirement to restrict any IAS 19 surplus, and hence also appropriate not to recognise any additional liabilities in respect of minimum funding requirements.	We engaged our actuarial experts to evaluate whether the assumptions and methodology used in calculating the pension liabilities were appropriate, by: • Assessing management's expert's qualifications and independence and read their terms of engagement to determine whether there were any matters that might affect their objectivity or may have imposed scope limitations upon their work; • Assessing whether salary increases and mortality rate assumptions were reasonable based on the consideration of the specifics of each plan, pension plans of similar maturity to the group's and industry benchmarks; • Comparing the consistency of the discount and inflation rate assumptions with our internally developed benchmarks based on relevant market data; and • Reviewing the methodology and calculations prepared by management's external actuaries to assess the appropriateness and the consistency of the assumptions used. Based on our procedures, we concluded that the key assumptions utilised were within acceptable ranges. We assessed the related disclosures included in the group financial statements and consider them to be appropriate. With respect to the pension assets, we obtained an understanding of the nature of the assets and obtained third party confirmations from investment managers. Particularly in relation to the PIVs we have: • Obtained investment manager's service auditor's controls report where available;

	• Obtained the most recent audited financial statements of the funds and compared the audited information to the valuation provided by the investment manager, where available; and • For those PIVs where there were transactions close to the year end, compared the valuation to the prices of those transactions close to the year end. Where there are no transactions within the defined 'recent' window, we obtained the most recent transaction in the year to assess whether the value was not significantly different to the year end valuation, where available. We also considered the extent to which there was any evidence available which might contradict the valuation and none was identified for any of the PIVs. In relation to the recoverability and recognition of the pension asset surplus, we have reviewed the legal advice available to the group and noted no exceptions.
Impact of COVID-19 (group and parent) Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters' and the COVID-19 section within the Accounting Policies. COVID-19 has continued to have a pervasive impact on the business and the wider aviation industry. The most recent government guidance and our hybrid working models has meant that the year end financial close process and external audit has had to take place remotely. The Directors have considered the impact of COVID-19 on the financial statements. Primarily, these considerations related to the possible impairment of intangible and tangible assets, including probability of expansion; the recognition of deferred tax assets; accounting for exceptional items; and the going concern basis of preparation There was a risk that the financial impact due to COVID-19 which had been recorded by management is inaccurate or that we may have been unable to obtain sufficient appropriate audit evidence in order to support our conclusions in respect of this assessment.	Our audit focused on those areas where management identified potential financial impacts arising as a result of the pandemic, which, based on our independent risk assessment, could have given rise to a risk of material misstatement. Despite undertaking most of our year end work remotely, we did not encounter any significant difficulties in performing our audit testing or in obtaining the required evidence to support our audit conclusions. Other than as already described in the relevant sections within this report (including the material uncertainty related to going concern section and the matters disclosed in the key audit matters above), we noted the following key material impacts on the financial statements, arising from COVID-19: · • We tested cash flow forecasts used to assess for possible impairments of intangible and tangible assets, and to support the going concern basis of preparation and the deferred tax asset in relation to losses. We evaluated management's assumptions in these forecasts in light of both historical and post year end performance. In assessing the future forecasts across an extended time horizon, whilst recognising the inherent uncertainty in assessing the impacts which may arise, we challenged management as to whether allowance had been made for the potential impact of climate change to reflect the current risks which have been identified. This included consideration of passenger recovery forecasts following change in consumer behaviour during the pandemic, for example, in relation to business travel, overall less appetite for flying and the suitability of use of the 'Widespread Innovation Scenario' in forecasting medium to long term passenger numbers. • Where relevant, downside scenarios, including a severe but plausible downside scenario for the going concern assessment, were modelled by management which we assessed using our independent sensitivities. We also evaluated the consistency of the various forecast models.

	• In relation to going concern, we have understood the debt covenants, assessed the forecast covenant calculations and the adequacy of management's disclosure in relation to going concern basis of preparation. • We assessed the classification and accuracy of the exceptional items. We reviewed the disclosures in the financial statements in respect of the impact of COVID-19 and concluded that these are appropriate. Based on the work performed, we found that management's conclusions in respect of the impact of COVID-19 on the group and company are appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group has two trading entities; two non trading financing entities which hold listed debt on the London Stock Exchange; and a number of other non trading entities. Our audit scope includes a full scope audit of one of the trading entities, which contributes more than 90% of the group's EBITDA and 99% of the group's revenue and the full scope audit of two other components. Specified audit procedures over certain financial statements line items were performed for one further component. The majority of the audit effort in relation to controls and substantive testing was performed at the significant trading entity level.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	**Financial statements - company**
Overall materiality	£35m (2020: £40m).	£60.80m (2020: £57m).
How we determined it	Materiality represents approximately 2.8% of a 5 year average adjusted EBITDA (2020: 2.8%)	1% of Total assets (2020: 1%)
Rationale for benchmark applied	The impact of COVID-19 on the financial statements has resulted in a significant decline in adjusted EBITDA and, therefore, given the volatility in the financial statements in the current year, we considered a 5 year average adjusted EBITDA to be a more appropriate benchmark. In making this assessment, we also considered the carrying value of assets, which remain consistent with pre pandemic levels, and the nature of the operations which remain largely unchanged year on year.	We have applied this benchmark of total assets, a generally accepted auditing practice and more appropriate given that the company does not generate revenues of its own.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £20m to £33m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £26.25m (2020: £30m) for the group financial statements and £45.60m (2020: £43m) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1.75m (group audit) (2020: £1.4m) and £3m (company audit) (2020: £1.4m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Heathrow Airport's CAA operating license being revoked, breaches of environmental regulations, adherence to data protection requirements, UK tax legislation not being adhered to and non-compliance with employment regulations in the UK, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the *Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial* statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, either in the underlying books and records or as part of the consolidation process, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with; management, including representatives outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the group's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Read the Board minutes to identify any issues which could indicate non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in its significant accounting estimates in relation to the carrying value of Expansion assets in construction; valuation of derivative financial instruments, investment properties and retirement benefit obligations; impairment assessment of tangible including the recoverability of deferred tax assets in relation to losses (see related key audit matters above);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals crediting revenue or those posted by unexpected users;
- Testing all material consolidation adjustments to ensure these were appropriate in nature and magnitude.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Sotiris Kroustis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
23 February 2022

Consolidated income statement for the year ended 31 December 2021

		Year ended 31 December 2021				Year ended 31 December 2020			
		Before certain re-measurements[1]	Certain re-measurements[2]	Exceptional items[3]	Total	Before certain re-measurements[1]	Certain re-measurements[2]	Exceptional items[3]	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	*1*	**1,214**	**-**	**-**	**1,214**	1,175	-	-	1,175
Operating costs[4]	*2*	**(1,629)**	**-**	**(31)**	**(1,660)**	(1,723)	-	(184)	(1,907)
Other operating items									
Fair value gain/(loss) on investment properties	*9*	**-**	**174**	**-**	**174**	-	(412)	-	(412)
Operating (loss)/profit		**(415)**	**174**	**(31)**	**(272)**	(548)	(412)	(184)	(1,144)
Financing									
Finance income	*4*	**8**	**-**	**-**	**8**	14	-	-	14
Finance costs	*4*	**(838)**	**(665)**	**-**	**(1,503)**	(653)	(202)	-	(855)
Net finance costs		**(830)**	**(665)**	**-**	**(1,495)**	(639)	(202)	-	(841)
Loss before tax		**(1,245)**	**(491)**	**(31)**	**(1,767)**	(1,187)	(614)	(184)	(1,985)
Taxation credit		**252**	**139**	**-**	**391**	208	110	18	336
Change in tax rate		**-**	**(196)**	**-**	**(196)**	-	(106)	-	(106)
Taxation credit/(charge)	*5*	**252**	**(57)**	**-**	**195**	208	4	18	230
Loss for the year[5]		**(993)**	**(548)**	**(31)**	**(1,572)**	(979)	(610)	(166)	(1,755)

1 Amounts stated before certain remeasurements and exceptional items are non-GAAP measures.
2 Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of derivative financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including the impact of the UK corporation tax rate change.
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 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.

The notes on pages 160 to 206 form part of these financial statements.

Heathrow Airport Holdings Limited

Consolidated statement of comprehensive income for the year ended 31 December 2021

	Note	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Loss for the year		**(1,572)**	(1,755)
Items that will not be subsequently reclassified to the consolidated income statement			
Actuarial loss on pensions			
Gain on plan assets[1]	*24*	**141**	389
Increase in scheme liabilities[1]	*24*	**125**	(492)
Change in tax rate	*24*	**(1)**	(1)
Items that may be subsequently reclassified to the consolidated income statement			
Equity investments			
Gain/(loss) taken to equity	*24*	**2**	(8)
Change in tax rate	*24*	**(1)**	(1)
Cash flow hedges			
(Gain)/loss taken to equity[1]	*24*	**18**	(43)
Transfer to finance costs[1]	*24*	**39**	53
Change in tax rate	*24*	**12**	4
Change in tax rate on other opening balances	*24*	**(7)**	(1)
Other comprehensive (expense)/income for the year		**328**	(100)
Total comprehensive expense for the year[2]		**(1,244)**	(1,855)

[1] Items in the statement above are disclosed net of tax. The tax relating to each component of other comprehensive income is disclosed in Note 24.
[2] Attributable to owners of the parent.

The notes on pages 160 to 206 form part of these financial statements.

Heathrow Airport Holdings Limited

Consolidated statement of financial position as at 31 December 2021

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Assets			
Non-current assets			
Property, plant and equipment	*7*	**10,849**	11,333
Right of use assets	*8*	**270**	285
Investment properties	*9*	**2,297**	2,118
Intangible assets	*10*	**2,909**	2,938
Equity investments	*11*	**23**	23
Retirement benefit surplus	*20*	**343**	12
Derivative financial instruments	*17*	**421**	656
Trade and other receivables	*13*	**113**	112
		17,225	17,477
Current assets			
Current income tax assets	*5*	**3**	2
Inventories	*12*	**13**	14
Derivative financial instruments	*17*	**25**	146
Trade and other receivables	*13*	**190**	464
Term deposits	*15*	**2,650**	3,586
Restricted cash	*14*	**19**	18
Cash and cash equivalents	*15*	**251**	344
		3,151	4,574
Total assets		**20,376**	22,051
Liabilities			
Non-current liabilities			
Borrowings	*16*	**(18,249)**	(18,726)
Derivative financial instruments	*17*	**(2,225)**	(1,134)
Deferred income tax liabilities	*19*	**(644)**	(735)
Lease liabilities	*8*	**(331)**	(349)
Retirement benefit obligations	*20*	**(30)**	(31)
Provisions	*21*	**(1)**	(1)
Trade and other payables	*22*	**(5)**	(9)
		(21,485)	(20,985)
Current liabilities			
Borrowings	*16*	**(1,039)**	(1,921)
Derivative financial instruments	*17*	**(19)**	(21)
Lease liabilities	*8*	**(40)**	(43)
Provisions	*21*	**(4)**	(16)
Trade and other payables	*22*	**(357)**	(389)
		(1,459)	(2,390)
Total liabilities		**(22,944)**	(23,375)
Net liabilities		**(2,568)**	(1,324)
Equity			
Capital and reserves			
Share capital	*23*	**2,666**	2,666
Other reserves		**(98)**	(168)
Retained earnings		**(5,136)**	(3,822)
Total shareholders' equity		**(2,568)**	(1,324)

The notes on pages 160 to 206 form part of these financial statements.

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) on page 132 to 206 were approved by the Board of Directors and authorised for issue on 23 February 2022. They were signed on its behalf by:

John Holland-Kaye
Director

Javier Echave
Director

Heathrow Airport Holdings Limited

Consolidated statement of changes in equity *for the year ended 31 December 2021*

		Attributable to owners of the Company			
	Note	**Share capital £m**	**Other reserves** £m	**Accumulated losses** £m	**Total** £m
1 January 2020		2,666	(173)	(1,862)	631
Comprehensive income:					
Loss for the year		-	-	(1,755)	(1,755)
Other comprehensive income/(expense):					
Fair value gains/(losses) on:					
Cash flow hedges net of tax	*20*	-	10	-	10
Change in tax rate	*24*	-	4	-	4
Equity investments	*24*	-	(8)	-	(8)
Change in tax rate	*24*	-	(1)	-	(1)
Actuarial gain/(loss) on pension net of tax					
Gain on plan assets	*20,24*	-	-	389	389
Increase in scheme liabilities	*20,24*	-	-	(492)	(492)
Change in tax rate	*24*	-	-	(1)	(1)
Change in tax rate on other opening balances	*24*	-	-	(1)	(1)
Total comprehensive income/(expense)		-	5	(1,860)	(1,855)
Transaction with owners:					
Dividends paid to ADI Finance 2 Limited	*6,24*	-	-	(100)	(100)
Total transaction with owners		-	-	(100)	(100)
31 December 2020		**2,666**	**(168)**	**(3,822)**	**(1,324)**
Comprehensive income:					
Loss for the year		-	-	**(1,572)**	**(1,572)**
Other comprehensive income/(expense):					
Fair value gains/(losses) on:					
Cash flow hedges net of tax	24	-	**57**	-	**57**
Change in tax rate	24	-	**12**	-	**12**
Equity investments	24	-	**2**	-	**2**
Change in tax rate	24	-	**(1)**	-	**(1)**
Actuarial gain/(loss) on pension net of tax					
Gain on plan assets	20,24	-	-	**141**	**141**
Decrease in scheme liabilities	20,24	-	-	**125**	**125**
Change in tax rate	20,24	-	-	**(1)**	**(1)**
Change in tax rate on other opening balances	24	-	-	**(7)**	**(7)**
Total comprehensive income/(expense)		-	**70**	**(1,314)**	**(1,244)**
31 December 2021		**2,666**	**(98)**	**(5,136)**	**(2,568)**

The notes on pages 160 to 206 form part of these financial statements

Heathrow Airport Holdings Limited

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]	26	**594**	(69)
Taxation			
Corporation tax (paid)/received		**(1)**	69
Net cash generated from operating activities		**593**	-
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(248)**	(512)
Investment properties		**(4)**	(9)
Proceeds on disposal of:			
Property, plant and equipment		**14**	-
Decrease/(increase) in term deposits[2]		**936**	(2,861)
Interest received		**7**	14
Net cash generated from/(used in) investing activities		**705**	(3,368)
Cash flows from financing activities			
Dividends paid to ADI Finance 2 Limited	6	**-**	(100)
Proceeds from issuance of bonds		**1,582**	1,977
Repayment of bonds		**(1,119)**	(402)
Drawdown of revolving credit facilities		**-**	1,050
Issuance of term note		**50**	640
Repayment of other facilities and other items		**(1,589)**	(14)
Increase in amounts owed to ADI Finance 2		**-**	742
Settlement of accretion on index-linked swaps		**(69)**	(285)
Prepayment of interest on swaps[3]		**-**	(29)
Inflation swap restructuring prepaid[4]		**-**	(47)
Interest paid[3]		**(212)**	(622)
Payment of lease liabilities		**(33)**	(36)
Prepayment of lease liabilities[1]		**-**	(11)
Consent fee payment[4]		**-**	(2)
Net cash (used in)/generated from financing activities		**(1,390)**	2,861
Net decrease) in cash and cash equivalents		**(92)**	(507)
Cash and cash equivalents at beginning of year		**362**	869
Cash and cash equivalents at end of year	15	**270**	362

[1]Within cash generated from 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]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.

[3]Includes £16 million of lease interest paid (2020: £16 million).

[4]Payment in relation to investor's consent to the temporary waiver of covenant ratios at Heathrow Finance plc. Refer to page 53 for further information.

The notes on pages 160 to 206 form part of these financial statements

Heathrow Airport Holdings Limited

Accounting policies for the year ended 31 December 2021

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

The Group

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

Basis of accounting

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards. They are prepared under the historic cost convention, except for investment properties, financial assets, derivative financial instruments, and financial liabilities that qualify as hedged items under fair value hedge accounting. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive.

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

Audit exemption of subsidiaries

For the year ended 31 December 2021, the following subsidiaries of the Group were entitled to exemption from audit under s.479A of the Companies Act 2006:

Subsidiary	Registered number
Heathrow Enterprises Limited	02767216
Heathrow Holdco Limited	06408400
LHR Airport Services Limited (formerly World Duty Free Limited	03414461
LHR Building Control Services Limited	03316215
LHR Business Support Centre Limited	03065139
London Airports 1992 Limited	02736819

Primary financial statements format

The Group's primary financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2021.

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column. This column includes certain re-measurements and exceptional items as listed in (i) and (ii) below, which management separates from the underlying operations of the Group. Also, this column includes the effect on taxation of changes in tax rates in (iii) and (iv) below. By isolating certain re-measurements and exceptional items, management believes the results provides the reader with a more meaningful understanding of the performance of the Group, by concentrating on the matters over which it has most influence, whilst recognising that information on these additional items is available within the financial statements, should the reader wish to refer to them.

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

i fair value gains and losses on investment property revaluations;
ii derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship;
iii. the associated tax impacts of the items in (i) and (ii) above; and
iv. the impact on deferred tax balances of known future changes in tax rates.

Accounting policies for the year ended 31 December 2021 *continued*

Exceptional items

The Group separately presents certain items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Group's result between periods. Exceptional items include business transformation costs in the prior year and capital write-offs in both current and prior years. These are not expected to reoccur in future years.

Going concern

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

Cash flow and liquidity

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

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.6 billion of debt in the year to 31 December 2021 with new €500 million, C$1,275 million and A$125 million Class A transactions and £400 million of Class B transactions being successfully executed. Consequently, the Heathrow Airport Holdings Ltd consolidated group held cash of circa. £2.9 billion as at 31 December 2021. Total debt maturity within the Group for the next 12 months from 31 December 2021 is £0.7 billion. No debt matures outside of the Heathrow Airport Holdings Ltd consolidated group for the next 12 months from 31 December 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the current regulatory business plan cash flow forecast or until at least February 2023 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Heathrow's regulatory business plan

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

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

In modelling the impact of COVID-19, there remains a significant degree of uncertainty given the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. Therefore, there is inherent subjectivity in our forecasting. For the year ended 31 December 2021, passenger traffic for the Group declined 12.2% to 19.4 million when compared with 22.1 million in 2020, and by 76.0% compared to 2019. Despite this decline in passengers compared to 2020, Adjusted Group EBITDA increased 42.3% to £387 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.

Going concern *continued*

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.

Accounting policies for the year ended 31 December 2021 *continued*

Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

The following new accounting pronouncements were adopted by the Group to comply with amendments to IFRS. None of these had any significant impact on adoption:

- Revised Conceptual Framework for Financial Reporting
- Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7 – phase 2, further disclosures are made in the accounting policies and note 16 to the financial statements.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New accounting pronouncements, that are not yet effective and have not been adopted early by the Group, to be adopted on or after 1 January 2022

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
- Amendments to References to the Conceptual Framework
- Amendments to IAS 1 Presentation of Financial Statements on classification of liabilities as current and non-current
- IFRS 17 'Insurance Contracts'
- 2018-2020 Annual Improvements Cycle

The Group's financial reporting will be presented in accordance with the new standards above, which are not expected to have a material impact on the consolidated results, financial position or cash flows of the Group, from 1 January 2022.

Basis of consolidation

The Consolidated financial statements consolidate the financial statements of Heathrow Airport Holdings Limited and all its subsidiaries.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of control. Costs directly attributable to the acquisition are expensed to the income statement. The identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date, irrespective of any non-controlling interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill on consolidation. Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of acquired subsidiaries are changed where necessary, to ensure consistency with policies adopted by the Group.

Alternative Performance Measures

In addition to performance measures, the Group discloses additional information including profit from operations, if applicable, performance before remeasurement items and exceptional items. The Group believes that this additional information provides useful information on underlying trends. This additional information is not defined under IFRS and may therefore not be comparable with similarly titled profit measures reported by other companies, as it is not intended to be a substitute for, or superior to, IFRS measures of profit. The alternative performance measures are set out on pages 216 to 218

COVID-19

The COVID-19 outbreak developed rapidly during 2020 and continued to significantly impact the Group in 2021. Measures taken to contain the virus have affected the wider economy and directly impacted on the Group's trading results (as detailed further in the Strategic report). The Group continued to operate where possible, in a safe and appropriate manner and strictly in accordance with both Government and the Civil Aviation Authorities health and safety guidelines and regulations. In light of the pandemic, the Group has performed a further review of its accounting policies and consider they remain appropriate. Some of the key points and clarifications resulting from this review are highlighted below.

The main impact to the trading results has been to the revenue and margin shortfall resulting from lockdown which ultimately resulted in not fulfilling performance obligations under IFRS 15 as efficiently as expected (or not at all) in relation to aviation income. The Group continues to recognise costs as incurred, including, costs associated with the new working guidelines in respect of COVID-19 secure environment, providing such costs are expected to contribute to the satisfaction of the performance obligation.

COVID-19 *continued*

The Group has utilised the Government's Job Retention Scheme until it closed. The grant income received has been accounted for in accordance with IFRS (IAS 20) for furloughed personnel and has been offset against existing furloughed staff costs incurred in line with our existing accounting policy in the Income Statement, refer to Note 2 for details.

The Group has reviewed any potential impairment indicators of both financial and non-financial assets (in accordance with IAS 36 and IFRS 9 in particular), especially where operations have suffered due to COVID-19. The Group has also reconsidered recoverability of fixed assets under IAS 36, particularly Expansion assets. Further details are included in these accounting policies.

As detailed in the Strategic report, the Group benefits from a wide customer base, which the Group considers provides greater financial security over the balances held within financial assets.

The practical expedient available from the recently endorsed amendment to IFRS 16 – 'COVID-19-Related Rent Concessions' has not been utilised on the basis that it is not relevant to the Group.

Climate change

Achieving net zero carbon aviation so as to limit the impacts of climate change is one of the Group's principal risks, as identified on page 65. Climate change could materially impact future passenger demand either due to future government or regulator intervention, an increase in the cost of aviation due to taxation or levies, or as a result of a change in consumer sentiment to aviation. These transition risks are explained fully within the Task Force on Climate Related Disclosures on pages 72. In addition, the Group may need to invest significant amounts of capital in order to future-proof its operations against the impacts of climate change. These physical risks are explained fully within the Task Force on Climate Related Disclosures on pages 74.

In preparing these financial statements, Management has considered the Climate change risk outlined above to ensure consistency between the potential future scenarios identified in the Task Force on Climate Related Disclosures and any impact they may have on these financial statements. Specifically:

- Goodwill: whether future passenger demand uncertainty impacts expected future cash flows, and therefore impacts the recoverability of goodwill. Based on the sensitivity analysis performed, there would be no goodwill impairment under the Group's climate scenario adopted for TCFD. Refer to Note 10 for further information.
- Property, plant and equipment (excluding assets in the course of construction): whether physical risks associated with climate change impact the useful economic lives of existing assets resulting in the need for accelerated depreciation. This could be as a result of assets that will be replaced as part of the Group's net zero plan to decarbonise during their current useful economic life; or could be as a result of the need to replace existing infrastructure in response to increasing temperatures and more unpredictable weather patterns ahead of previous expectations. In the year, there has been no resultant change to useful economic lives of the Group's assets, and no related accelerated depreciation or impairment. Refer to Note 7 for further information
- Assets in the course of construction: specifically related to Expansion assets and whether the need to get to net zero aviation impacts the probability of Expansion occurring, and therefore the recoverability of Expansion assets. Refer to the Capitalisation critical judgement on page 156-157 for further information.
- Investment properties: whether future passenger demand will impact the valuation of Investment properties. Investment properties are initially recognised at cost and subsequently stated at fair value. The fair value of investment properties is based on expected revenue and revenues growth which is directly proportional to future passenger numbers. Based on Management's sensitivity analysis performed, no impairment or fair value impact has been recorded in these financial statements. Refer to Note 9 for further information.
- Deferred tax assets: whether future passenger demand impacts the recoverability of deferred tax assets. Deferred income tax assets are recognised in respect of all deductible temporary differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. A reduction in future passenger numbers may impact future taxable income. Based on the sensitivity analysis performed, the asset recognised is still fully recoverable under the Group's climate scenario adopted for TCFD. Refer to Note 19 for further information.

The Directors are satisfied that all information presented in the Annual Report and Accounts has been consistently applied throughout, particularly with regard to forecast information and commitments associated with achieving net zero.

Subsidiaries
Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is defined as where the Group is exposed or has rights to variable returns from its involvement with the subsidiary and the ability to affect those returns through its power over the subsidiary.

Segment reporting
Information reported to the Chief Operating Decision Makers (CODMs) being the Board of Directors for the purposes of resource allocation and assessment of segment performance relates to the operations of Heathrow and Heathrow Express.

Revenue from Contracts with Customers
Revenue is income arising from the sales of goods and services in the ordinary course of the Group's activities and excludes amounts collected on behalf of third parties. Revenue is recognised when performance obligations are satisfied, and control has transferred to the customer. For the majority of the revenue streams, there is a low level of judgement in determining the timing of transfer of control or transaction price, an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue can be recognised over time or at a point in time.

The Group recognises revenue from the following major sources:

- Aeronautical income;
- Retail services
- Car parking;
- Other regulated charges; and
- Rail income.

Aeronautical income
Aeronautical income includes:

- Aircraft movement charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on time parked and whether aircraft are wide or narrow bodied as provided.
- Passenger charges based on the number of departing passengers on departure.
- Other charges levied for passenger and baggage operations when these services are rendered.

Landing and terminal services are provided to airlines on demand under the published regulatory prices, rather than through fixed quantity individual contracts. Depending on service being provided, the transaction price is calculated based on a fixed price per landing, parking, per passenger and by weight. Where applicable, separate incentive agreements are signed with individual airlines. These charges are recognised at a point in time when Heathrow renders and fulfils the service.

Retail services
Retail income includes concession fees from retail and commercial concessionaires at the airport which are based upon reported revenue and/or volumes by concessionaires, taking into account contracted minimum guarantees prices (variable consideration) only where applicable.

The performance obligation for this revenue stream is the provision of retail unit space to a third party for the purposes of selling goods or providing services to the passengers, in return for a fee, based either on a fixed rental fee, or a concession fee based on turnover. The revenue is recognised in the period that the sales occurred, therefore at a point in time.

Other Regulated Charges ('ORCs')
Revenue in relation to ORC's is derived from the recovery of certain costs incurred by the Airport. It includes:

- Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided.
- Charges related to passengers with restricted mobility and other services recognised at the time of delivery.
- Other invoiced sales: recognised on the performance of the service.

The Group typically satisfies its performance obligation as the service is provided. Revenue is recognised on the day the service takes place, therefore at a point in time.

Revenue from Contracts with Customers *continued*

Car Parking
Car parking charges is from the provision of parking services to customers, which include for Short Stay (fixed consideration by tiered time), Long Stay, Business parking, Drop off and Storage (fixed variable consideration by time utilised). The Group considers the performance obligation is satisfied by the provision of a car park space for each day the car is parked, therefore the revenue is recognised over time.

Customers who book and pay for car parking, but then subsequently cancel before occupying or prematurely curtail the use of the parking space are refunded on a pro-rata case basis.

Rail income
Heathrow Express derives its income from the sale of tickets to customers (fixed variable consideration by time utilised).

Revenue attributable to return tickets should be allocated to each journey and recognised on the day each journey takes place, therefore at a point in time. Heathrow Express is not able to track when each journey is undertaken and therefore has used sample data of historical journeys to estimate when each journey takes place.

The revenue is recognised by applying the management assumptions below to measure progress towards satisfaction of the performance obligation:
- 90% of single tickets are used in the month of sale.
- 80% of return tickets (50% outward and 30% return) are used in the month of sale.
- All multiple journey tickets are used within 6 months.

Finance income
Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets, until the asset is complete and available for use. Such borrowing costs are capitalised whilst projects are in progress.

Where assets in the course of construction are financed by specific borrowing facilities the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise, otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

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

All other borrowing costs, including costs incurred in respect of the maintenance of the Group's credit ratings, are recognised in the income statement in the period in which they are incurred.

Property, plant and equipment

Operational assets
Terminal complexes, airfield assets, plant and equipment, rail assets and other land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Assets in the course of construction are stated at cost and reviewed for impairment. No depreciation is charged, or revaluation made, prior to work in progress being capitalised to the appropriate asset category. Assets in the course of

Accounting policies for the year ended 31 December 2021 *continued*
Property, plant and equipment continued
Operational assets continued
construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised (see "Borrowing Costs" policy), own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future benefits will flow to the Group whilst embracing the Group's commitment to support net zero aviation by 2050. The Group reviews these projects on a regular basis to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment. Including review of all assets that have a residual economic life greater than the zero-carbon target date.

Heathrow expansion
Assets in the course of construction include qualifying costs in respect of Heathrow expansion following the Government decision in October 2016 in favour of Heathrow, and subsequent Board decision in October 2016 to apply for the Development Consent Order.

These two events were considered by management to be a trigger point for the expansion project to proceed. Management subsequently announced publicly that the Group would apply for planning permission, deeming it probable that expansion at Heathrow would be realised. Management considers October 2016 to be the point at which Expansion moved from the research phase to the development phase, and therefore eligible development expenditure is capitalised in line with the principles of IAS 38 as 'assets in the course of construction' – refer to 'Internally-generated intangible assets' accounting policy. Expansion costs incurred during the research phase for the Airports Commission process and before Heathrow was named as the preferred location for new runway capacity in October 2016, were expensed in the period incurred. Costs directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity through the Development Consent Order process were capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets.

As explained on page 44, the Airport National Policy Statement continues to be lawful and legal Government policy and therefore the legal framework continues to exist for Expansion. The impacts of COVID-19 have temporarily paused the Expansion programme with efforts focussed on recovery, nevertheless Management still consider Expansion to be a probable outcome. This forms a Critical Judgement and is explained further on pages 156-157.

Depreciation
Depreciation is provided on operational assets, other than land and assets in the course of construction, to write off the cost of the assets less estimated residual value, by equal instalments over their expected useful lives as set out below:

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	5-10 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–120 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Rolling stock	8–40 years

Accounting policies for the year ended 31 December 2021 *continued*
Property, plant and equipment continued
Depreciation continued

Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Other land and buildings	
Short leasehold properties	3–20 years
Leasehold improvements	Lower of useful economic life or period of lease

Asset residual values and useful lives are reviewed and adjusted at each reporting date. If expenditure maintains the life of the non-current asset or maintains its earning capacity, then it is treated as revenue expenditure expensed as incurred. Alternatively, if the expenditure provides incremental future benefits so that it improves the earning capacity or extends the life of the non-current asset beyond its originally intended useful economic life, then it is treated as capital expenditure.

This is usually the case with non-climate compliant assets where the Group seeks to modify appropriate assets where possible as it works towards its zero-carbon footprint commitment which is detailed in the strategic report. In certain circumstances, the asset life may fall outside of the boundaries disclosed above. Climate uncertainty does not have a material impact on the assessment of useful lives as the assets are considered to be fit for purpose over the assessed useful economic lives with reasonable repairs and maintenance. This is primarily since the key assumption in the mitigation against climate change is the adoption of Sustainable Aviation Fuels, as explained in the TCFD on pages 72, which will use the existing asset infrastructure without material changes to existing assets. Consistent with the physical risk assessment in the TCFD, there are no material physical risks associated with climate change due to physical location of the airport and its operations, and therefore at this stage there have been no resultant changes to the useful economic lives of assets.

Impairment of assets (excluding goodwill)
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when management deem impairment testing for an asset is necessary, the Group estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When performing this review, Heathrow and Heathrow Express forms two cash generating units (CGUs) based on the functional organisational structure by which the airport is managed. The Group has also assessed all Property, Plant and Equipment to consider whether there are indicators of material impairment arising from the potential physical risks arising from climate change as identified in the Task Force on Climate Related Financial Disclosures on pages 72. No assets have been impaired this year as a result of this exercise, which will be repeated at each subsequent reporting date.

Investment properties
Investment property held to earn rentals and/or for capital appreciation, is initially measured at cost and subsequently stated at fair value at the reporting date, as determined by the directors and supported by external valuers. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Land is held by the company for long term and strategic purposes and is not held for resale. Investment properties are land and buildings where the building is built to maximise the return on land and buildings as an "interim use", are held for long term rental yield and are not occupied by the company. Investment property also includes property that is being constructed or developed for future use as investment property. Properties leased to third parties under operating leases are generally classified as investment property.

Goodwill
Goodwill relates to the excess of the purchase consideration paid over the carrying values of the net assets of the Heathrow Airports Holdings Group, which was acquired in June 2006, and represents the potential for long term growth in the

Goodwill *continued*
infrastructure and passenger traffic and tariffs. As at 31 December 2021, the Group has two operating segments; Heathrow and Heathrow Express. Goodwill is allocated wholly to Heathrow, representing the core assets driving long term value.

The recoverable amount of the Group has been calculated using the fair value less cost to sell methodology. Fair value has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant plan over the period until year 2041. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection has been calculated applying a multiple of 1.15x RAB.

An impairment test is a comparison of the carrying value of the assets of a CGU, to their recoverable amount calculated as the higher of fair value less cost to sell and Value In Use (VIU). When the recoverable amount is less than the carrying value, impairment exists. The carrying value of goodwill was tested for impairment as at 31 December 2021. No impairment charges resulted.

Short term projections are based on the latest forecast approved by the Board in December 2021. Longer term projections reflect Heathrow's emerging Expansion plans and climate change considerations, particularly those Transition Risks related to future passenger number uncertainty as identified in the Task Force on Climate Related Financial Disclosures on page 72. Due to the nature of the regulatory arrangement and the significant headroom in the goodwill valuation and climate change risks are not considered to have a material impact on the valuation of goodwill. Refer to Note 10 for further details.

Key judgements and assumptions

In determining the fair value of the Group, when considering impairment, the Directors have made a number of assumptions based on recent experience and is consistent with relevant external sources of information. The key assumptions used in determining the recoverable amounts are:

- Return allowed by the regulator and discount rates
  The directors' assumptions made for the return allowed by the regulator reflect management's view of the airport's cost of capital and expectations of the result of future price determinations.
- Forecast passenger numbers
  The Directors' determination of future passenger numbers, including assumptions associated with the return to pre-pandemic passenger demand and the long-term demand associated with climate change risks outlined in the TCFD on page 72.
- Discount rates
  The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount in the base case was 7.0%.
- Cost of debt
  Long-term assumptions for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Internally-generated intangible assets
Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

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

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

This type of expenditure primarily relates to internally developed software and website projects for the group and are amortised on a straight-line basis over their useful economic lives of three to seven years. During the period of development, the asset is tested for impairment annually.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Accounting policies for the year ended 31 December 2021 *continued*
Internally-generated intangible assets *continued*
Purchased intangible assets (software costs)
Computer software costs principally relate to operating and financial software. These assets are amortised on a straight-line basis over their useful lives of between four and fifteen years. The assets are assessed for impairment whenever there is indication that the intangible asset may be impaired.

Purchased intangible assets (retail contracts)
Retail contracts relate to the acquisition of Heathrow Airports Holdings Group in June 2006. These assets are amortised over a period of between ten and fifteen years. Amortisation for the year is charged through operating costs. The assets are assessed for impairment whenever there is indication that the intangible asset may be impaired.

Cloud computing arrangements
Cloud computing arrangements include software as a service, platform as a service, infrastructure as a service and other similar hosting arrangements (i.e. an arrangement in which an end-user of the software does not take possession of the software).

Specific criteria need to be met for a cloud computing arrangement to be considered a software licence. Depending on whether those criteria are met assists in determining the accounting treatment for related fees in that arrangement. To determine if the arrangement is a software licensing arrangement, the below two criteria must be met:

- The entity has the contractual right to take possession of the software at any time during the hosting period without significant penalty; and
- The entity can run software on its own hardware or can contract with another vendor to host the software.

If the cloud computing arrangement is determined to be a software licensing arrangement, it is considered an intangible asset and accounted for as such.

If the criteria are not met, the arrangement should be treated as a service contract. In a service contract, the ongoing service costs are expensed as incurred and implementation costs can be capitalised.

In light of recent IFRIC changes, the Group has re-evaluated it's historical accounting for SaaS assets and concluded that there is no material change in asset values.

Leases

Group as a lessee
Group leases relate to the electricity distribution network at the airport, offices, warehouses, plant and equipment and track access.

At inception, the Group assess whether the contract contains a lease or is a lease. A lease is determined when the contract conveys the right to control an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability for all lease agreements in which the Group is the lessee at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial lease liability adjusted for any lease payment made at or before the commencement date, plus any indirect initial costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are then subsequently depreciated using the straight-line method or reducing balance method from the commencement date to the earlier of the lease term or useful life of the underlying asset. Right-of-use assets are reviewed for indicators of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the rate implicit in the lease, or, if the rate cannot be determined, the Group's incremental borrowing rate.

Leases *continued*

Group as a lessee continued

The incremental borrowing rate is based on the (i) reference rate, (ii) financing spread and (iii) lease specific adjustments. The reference rate is based on the UK Nominal Gilts aligned with the tenor of the lease observed at the time of signing the contract.

The financing spread is based on the term of the debt, level of indebtedness, entity and economic environment. The lease specific adjustment is required if the term of the lease is out of the norm.

Lease payments included in the measurement of lease liabilities includes the following:

- Fixed payments including in-substance fixed payments
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
- The amount expected to be payable by the lessee under residual value guarantees

The Group remeasures the lease liability when there is a change in the future lease payments arising from a change in rate or index or, a modification to the lease that is not accounted for as a separate lease. In the latter case, the lease liability is remeasured by using a revised discount rate. When the lease liability has been remeasured, a corresponding adjustment is *made to the carrying amount of the right-of-use asset or is recorded in the profit or loss account if the carrying amount of the* right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has opted not to recognise right-of-use assets and lease liabilities for low value assets and short-term leases (defined as a lease with a lease term of 12 months or less). Instead, the lease payments are recognised as an operating expense on a straight-line basis over the length of the lease term or on a systematic basis.

Extension and termination options

Extension and termination options are included in a number of leased assets across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

Group as a lessor

The Group receives rental income from operating leases of its investment properties, space in the terminals and ancillary buildings.

The Group fully accounts for the default risk on lease receivable by recognising loss allowances, which are recognised in accordance with the requirements of IFRS 9.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Restricted cash

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

Cash and cash equivalents

For the purposes of the Statement of financial position, cash and cash equivalents comprise cash at bank, cash in hand, money market funds and short-term deposits with an original maturity of three months or less. For the Consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, excluding tax or escrow deposits.

As a mitigation measure in the prior year, from time to time Heathrow may, at major reporting dates prepay in advance of the operating expense falling due to its suppliers', payments which are subsequently lodged into an escrow account to improve the cash flow bank covenant ratio. In accordance, with IAS 7, cash and cash equivalent balances have been shown in accordance with the definition and thus do not include these prepayments held in escrow, as these are amounts that are no longer available to the group as disclosed in Note 26. These prepayments are an outflow of cash which have been recorded within prepayments that form part of the current, trade and other receivables balance, as disclosed in Note 13.

Term deposits
Term deposits are shown separately on the Statement of financial position and Statement of cash flows.

Deferred income
Amounts received prior to the delivery of goods and services are recorded as deferred income and released to the income statement as they are provided.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted, where material, to present value using a current, pre-tax rate that reflects, where appropriate, the risks specific to the liability.

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

Financial instruments

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).
Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:
- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
- *they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows*
- *the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.*

Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Financial instruments *continued*

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

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

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

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

Impairment of financial assets

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

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the asset.

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

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

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial asset. For large one-off balances where there is no historical experience, analysis is completed in respect of a number of reasonably possible scenarios.

Trade and other receivables

Trade receivables, which generally have 14-day terms, are initially recognised at their transaction price. When a trade receivable is uncollectible, it is written off against the impairment provision for trade receivables. Subsequent recoveries of amounts previously written off are credited against costs in the income statement. Short-term trade receivables do not carry any interest and are stated at their amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument.

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

The Group assess impairment of trade receivables on a collective basis where they possess shared credit risk characteristics they have been grouped based on sector industry global default rates. Refer to Note 13 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The assessment of impairment for trade receivables can either be individually or collectively and is based on how an entity manages its credit risk. As the Group has a small number of receivables with large value and these receivables are managed on

Financial instruments *continued*

an account basis (i.e. individually) it is therefore not appropriate to base the impairment on a provision matrix as such a matrix would unlikely be in line with the expected credit loss of the individual receivable.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all other liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Classification and measurement of financial liabilities
The Group's financial liabilities include borrowings, trade and other payables, derivative financial instruments and financial lease liabilities.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

For index-linked borrowings, the nominal amount is adjusted for movements in the relevant price index. This accretion expense is recorded within finance costs in the income statement.

Debt issue costs
Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

Trade and other payables
Trade and other payables are non-interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months.

Certain derivatives, as indicated by their fair value at inception or immediately prior to the restructuring, could not be supported by observable inputs alone. These "day 1" fair values are supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument.

To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

Accounting policies for the year ended 31 December 2021 *continued*

Financial instruments *continued*

- The hedging relationship consists only of eligible hedging instruments and eligible hedged items. There is formal designation and documentation of the hedging relationship, risk management objective and strategy at inception of the hedge.
- The hedge relationship meets the hedge effectiveness requirements.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:
- fair value hedges, where they hedge exposure to changes in the fair value of the hedged asset or liability; or
- cash flow hedges, where they hedge exposure to variability in cash flows that are attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Sources of ineffectiveness
Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be timing differences between the cash flows of the hedged item and the hedging instruments, currency basis and credit risk.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship.

If a hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item that is still in place is amortised over the tenor of the original hedged item.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The amount recognised in the separate component of equity is the lower of:
- the cumulative gain or loss on the hedging instrument from the inception of the hedge;
- and the cumulative change in fair value (present value) of the expected cash flows on the hedged item from the inception of the hedge.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. If the cumulative change in the hedging instrument exceeds the change in the hedged item (sometimes referred to as an 'over-hedge'), ineffectiveness will be recognised in the profit and loss for the excess. If the cumulative change in the hedging instrument is less than the change in the hedged item (sometimes referred to as an 'under-hedge'), no ineffectiveness will be recognised.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss, as described in the derivative financial instruments note disclosure (Note 17).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When or if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Financial instruments *continued*

Derivatives at fair value through profit and loss

Derivative instruments not designated are accounted for at fair value and recognised immediately in the (income statement) profit and loss.

When derivatives are designated in a hedge relationship, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their net amount in finance costs in the income statement.

Accounting for changes in credit risk

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Group's derivatives is updated monthly based on current market data.

IBOR Reform Phase 2

The Group early adopted Phase I of IFRS Interest Rate Benchmark Reform amendments related to hedge accounting with effect from 1 January 2020, and Phase II with effect from 1 January 2021. The amendments impact our fair value hedging relationships where derivative cash flows will be transitioned from paying LIBOR to paying an alternative reference rate. The Phase I amendments will be applied until the earliest point in time of the Group's contracts that reference LIBOR being amended, the hedging relationship being formally discontinued or formal market conventions ending uncertainty being published and widely adopted. When the transition takes place, on the hedge relationships where Phase 2 amendments are applicable, the hedged risk must be re-documented to reflect this and allow the existing hedge designations to continue. If amended cash flows do not cause a hedging relationship to be discontinued, then the amendments will cease to be applied only when that relationship is discontinued under IFRS 9. The notional values of hedging instruments, for all fair value hedging relationships impacted by the Phase 2 amendments, are shown in relevant tables in notes 16 and 18. There is no impact on cash flow hedging relationships in 2021. 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).reference rates(ARR).

During 2021, the Directors reviewed the Group's exposures to IBOR, including an assessment of the impact on the following:

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

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

Accounting policies for the year ended 31 December 2021 *continued*

Shared Services Agreement ('SSA')
All employees of the Group are employed by LHR Airports Limited with the exception of non-senior management at Heathrow Express Operating Company Limited. LHR Airports Limited grants all employee benefits and sponsors the defined benefit pension schemes while Heathrow Airport Limited incurs any staff related costs.

On 18 August 2008, Heathrow Airport Limited and Heathrow Express Operating Company Limited entered into a SSA with LHR Airports Limited by which the latter became the shared services provider for the Group.

Following the disposal of Aberdeen, Glasgow and Southampton airports in December 2014 the directors reassessed the Group's relationship with LHR Airports Limited, given that the sole operating airport is now Heathrow and noted the following;

- The SSA states that the operating entities, being only Heathrow Airport Limited from 1 January 2015, are responsible for pension costs on LHR Airports Limited's retirement benefit schemes,
- The Group is responsible for funding the retirement benefit schemes, paying employer contributions directly to the pension scheme, and
- Although employees remain legally employed by LHR Airports Limited, the Group makes all employment decisions. LHR Airports Limited is not deemed to be providing a service, substantive or otherwise in relation to employees, to the Group.

Employment costs
The Group's airport incurs the cost of people which are contractually employed by LHR Airports Limited but provide services to the operation of the airport. Charges in relation to employment costs include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other associated expenses properly incurred by the employees of LHR Airports Limited in providing the services.

Centralised services
LHR Airports Limited is viewed by management as acting as principal in relation to the services provided of the Heathrow LHR Airports Limited is viewed by management as acting as principal in relation to the services provided of the Heathrow Airport Holdings ('HAHL') board members. These costs are recharged to Heathrow Airport Limited with a mark-up of 7.5%. Other services are paid for and sourced directly by Heathrow Airport Limited, either without LHR Airport Limited's involvement or on a pass-through fixed mark up only basis (agent). This judgement has been reached following consideration of whether LHR Airports Limited has been exposed to the majority of the significant benefits and risks associated with the exchange transaction.

Retirement benefit obligations
LHR Airports Limited has both defined contribution and defined benefit pension schemes. LHR Airports Limited is an indirect subsidiary of HAHL Group (the 'Group') and is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post-Retirement Medical Benefits ('PRM') scheme

Following a decision in 2015 to re-assess the Group's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Group, should act as the sponsor in relation to these schemes. As a result, the Group now recognises retirement benefit obligations within its financial statements.

Obligations for contributions to the defined contribution pension scheme are recognised as an expense in the income statement as incurred.

The cost of providing benefits under the defined benefit pension scheme is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When the benefit of a plan is changed or when a plan is curtailed, the resulting change that related to past service or the gain or loss on curtailment is recognised immediately in the Statement of profit or loss.

When a settlement occurs, the obligation and related plan asset are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement occurs. Significant events which give rise to curtailment and settlement events are those that result in a material impact to the defined benefit obligation or which result in a significant change in number of scheme members.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

Retirement benefit obligations *continued*
The Group recognises actuarial gains and losses in full in other comprehensive income ('OCI') in the period in which they occur. Remeasurements of the net defined benefit liability are recognised immediately in OCI.

The defined benefit pension asset or liability in the statement of financial position comprises the present value of the defined benefit plan obligation (using a discount rate based on high-quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. Scheme assets include funds for which the fair value is estimated at year-end based on the most recently available audited position with adjustments made for subsequent cash flows. A total of £138 million of assets were valued in this way for 31 December 2021.

Government grants
Government grants are recognised where it is probable that the grant will be received, and all the attached conditions have been complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the related costs, for which it is intended to compensate, are expensed. The Group has chosen to present grants related to an expense item as net deductions against the related expense.

Current and deferred income tax
The tax credit/(charge) for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is recognised in other comprehensive income.

Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Group relief claimed/surrendered between UK companies is paid for at the applicable tax rate of 19% (2020: 19%) for the year.

Deferred income taxation is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements, at rates expected to apply when they reverse, based on current tax rates and law. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that there are future taxable temporary differences from the unwind of the deferred income tax liabilities, against which these deductible temporary differences can be utilised or other future taxable profits. Deferred tax assets and liabilities are not discounted. For deferred tax purposes, there is a rebuttable presumption that investment properties are on a 'held for sale' basis. The directors consider that this presumption is not rebutted.

Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantively enacted during the year and are expected to apply in the periods in which the related deferred tax asset or liability is reversed.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs, allowing for any reductions in the par value. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

Dividend distribution
A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the shareholders' right to receive payment of the dividend is established.

Foreign currency

The consolidated financial statements are presented in Sterling, which is the parent company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement.

Significant accounting judgements and estimates for the year ended 31 December 2021

In applying the Group's accounting policies, management have made judgements and estimates in a number of key areas. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an on-going basis.

Critical judgements in applying the Group's accounting policies

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

Hedge accounting
Certain interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of forecast transactions or existing liabilities. Management compares on a regular basis existing and historic frozen cash flow hedging arrangements against expectations for future Sterling re-financing. If there were significant changes in the expected quantum of future Sterling re-financing, then levels may be insufficient to support components of the cash flow hedge reserve, requiring the cash flow hedge reserve to be recycled in full through the income statement. As at 31 December 2020, £183 million of fair value losses (2019: £205 million) on these derivatives have been deferred into the cash flow hedge reserve. As at 31 December 2021, £183 million of fair value losses (2020: £205 million) on these derivatives have been deferred into the cash flow hedge reserve. This has been assessed by management as part of IBOR reform and as a result, none of the above frozen cash flow hedges have been impacted by the transition to alternative reference rates (ARRs).

Capitalisation
Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Judgement has been exercised in the year including in relation to:

- the assessment of assets in the course of construction, including expansion costs where judgement is exercised to determine costs that are directly attributable to the assets under construction;
- capitalized interest costs during the course of assets under construction, refer to the borrowing costs accounting policy above;
- when a project moves from the research phase (where costs must be expensed in the current period) to the development phase and hence may be capitalised as the future economic benefit of the project becomes probable and the principles of IAS 38 are considered and applied.

Assets in the course of construction for the expansion of Heathrow had a net book value of £513m as at 31 December 2021. IAS 16 Property, Plant & Equipment requires it to be probable that future economic benefits associated with an item will flow to the entity for an item to be capitalised. Management has considered the impact of the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement) and the potential impact of COVID-19 on long term passenger demand and the impact of climate change and have concluded that expansion remains probable.

The policy and regulatory frameworks required to expand Heathrow remain in place. In December 2020, the Supreme Court unanimously ruled that the policy framework governing Expansion – the Airports National Policy Statement ('ANPS') – is lawful UK Government policy. In addition, following third-party requests to review the ANPS, on 6 September 2021, the Secretary for State for Transport concluded that it was not appropriate to review at this time. Furthermore, the CAA continues to support Expansion on the basis that they believe it furthers the interests of consumers, as included within its Initial Proposals that were published in October 2021.

COVID-19 has created uncertainty of when passenger demand will recover to pre-pandemic levels, however Management's current long-term passenger modelling still supports the business case. Long-term passenger forecasts are continually reviewed by Management and the Board, which still support the fact that Expansion would be affordable and financeable. This explains why, following Board approval as well as consultation with our airline community and the CAA, we reopened our Interim Property Hardship Scheme in May 2021 and continue to engage with our local communities.

In order to obtain planning consent for the third runway, we will have to demonstrate that expanding Heathrow is compatible with the UK's climate change obligations, including the Paris Climate Agreement. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology, and such widespread innovation is incorporated into our long-term forecasting as discussed in our Taskforce for Climate Related Financial Disclosures on page 66.

Significant accounting judgements and estimates for the year ended 31 December 2021 *continued*

Capitalisation *continued*
Management has carefully considered the risks to Expansion, particularly future demand recovery following COVID-19 in addition to climate change risk on long-term passenger numbers, the legislative and regulatory environment, and any likely financeability risks. We still consider Expansion as a probable outcome. Management will continue to test this judgement as we formalise next steps with investors, Government, airline customers, local communities and regulators. These next steps include the continued validation of the underlying business case (traffic demand and pricing proposition); ensuring a fair and stable economic regulatory framework; and the confirmation or a review of the ANPS by the Secretary of State for Transport.

As at 31 December 2021, £513 million of Expansion-related assets in the course of construction are recognised on the balance sheet, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission. The ability to recognise the majority of these assets is supported by the view that Expansion remains probable, and any future change to this critical judgement would result in an impairment of these assets. Management has also considered whether there is any obsolescence associated with the continued programme delay. Any obsolescence is likely isolated to potential areas of exploratory groundwork rework, as well as any rework caused by subsequent changes in planning laws or regulations. In the prior year, £10 million of impairment was recognised associated with expected future rework, and the judgements and assumptions utilised in this assessment have not changed in the current year with no further impairment recognised.

Agent versus principal
The presentation of certain costs including employment costs and pension costs which are a contractual obligation of LHR Airports Limited are presented as Operating costs of the Group in the 2021 financial statements as Heathrow Airport Limited (part of the Group) is deemed to be the principal in relation to these transactions. This judgement is based on the balance of risks and rewards between group companies.

Leases
Key judgements impact the issue of measurement when they relate to determining the appropriate basis values where consideration is required on legal limits on the use of the asset, installation of improvements, or where there is an option to extend the finance lease after the initial period and with economic/ potential lives that exceed the finance lease period. Moreover, in determining the discount rate, use is made of the incremental borrowing rate, where an increase in the discount rate would result in a lower value of the initial right-of-use asset and lease liability, lower depreciation expense and a higher interest expense over the term of the lease.

Useful economic life (UEL) and depreciation
Calculation of depreciation and the retention of assets on the fixed asset register requires management to make judgements regarding the useful economic lives of fixed assets in regards to legal limits on the use of the asset, improvements, or where there is an option to extend the finance lease after the initial period and with economic/ potential lives that exceed the lease period. These judgements are based on Heathrow's experience of similar assets, engineering data and industry standards.

Where management identifies that actual UELs differ from those estimated, the UELs are adjusted in the period that the difference is identified. As Heathrow makes significant investment in PP&E during Expansion and continues to efficiently utilise existing assets by extending lives where appropriate, the differences between the estimated and actual UELs could have a positive or negative impact on the financial statements.

Car parks classified as investment property
Management have exercised judgement in order to determine the appropriate classification of the car parks as investment properties or property, plant and equipment. Under IAS 40 'Investment Properties', an entity treats such a property as investment property if the ancillary services provided is insignificant to the arrangement as a whole and if the holder is deemed as a passive investor. Heathrow provides insignificant ancillary services as the day-to-day operation of the car parks is outsourced to a third-party provider. The third-party provider receives a portion of fixed fee and variable fee for the use of the car parks and Heathrow does not bear the associated risks and rewards of supplying the car park services to the passengers. The revenue received by the Group in respect to the car park revenue, represents rental income for the use of the space and service provided.

Retirement benefit scheme surplus
At 31 December 2021, the BAA Pension Scheme is in a net surplus position of £343 million, comprising of scheme assets measured at fair value of £4,886 million and scheme liabilities of £4,543 million. Based on legal advice obtained, the Directors have deemed it appropriate to recognise the surplus in full on the basis that there is an unconditional right to refund and therefore no requirement to restrict the surplus as measured under IAS 19. Further details are included within Note 20.

Significant accounting judgements and estimates for the year ended 31 December 2021 *continued*

Deferred tax assets
Deferred income tax assets are recognised in respect of all deductible temporary differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. Management judgement is required in the assessment of whether future taxable profits support the recoverability of the deferred tax assets. Based on sensitivity analysis performed, the asset recognised remains fully recoverable.

Key sources of estimation uncertainty

Investment properties
In applying IAS 40 investment properties have been estimated to be worth £2,297 million as at 31 December 2021. To assist in assessing the valuation of our investment properties Heathrow engages a professional valuation firm, CBRE Limited, Chartered Surveyors, that is regulated by the Royal Institution of Chartered Surveyors (RICS). Its report comments that the outbreak of COVID-19, continues to affect economies and real estate markets globally. Nevertheless, as at the Valuation Date, property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value. Accordingly, their valuation is not reported as being subject to 'material valuation uncertainty', as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

Management have reviewed the main assumptions underlying the valuation of Investment properties and provide sensitivity analysis based on reasonable possible changes to relevant assumptions. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying amounts of investment properties within the next financial year have been assessed as those related to Car Parks. Car parks are valued individually based on actual data on revenue in the current year and expectations of future growth rates. Sensitivities have been run to analyse the impact of a reasonable change in growth rates and a reasonable change in base year revenue informed by discussions with CBRE and internal Heathrow car park experts.

Estimations are also made concerning expectations of future growth rates of operating costs including business rates. The results of the sensitivities are shown in Note 9 to the accounts.

Retirement Benefit Obligations
Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at the period end and charges to the income statement. The assumptions have been determined in consultation with the Group's actuary considering market and economic conditions. Assumptions can vary from period to period because of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations.

The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position of the Group pension scheme is recorded as a net actuarial gain or loss and is reflected in the statement of comprehensive income.

The triennial Trustee valuation of the scheme was completed during 2019 and included updates to mortality rates as well as other key demographic indicators, which have been used to inform management assumptions used at 31 December 2021.

Management have reviewed the main assumptions underlying the valuation of Retirement benefit obligations. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying value of the assets and liabilities relating to the scheme have been assessed as: a) Discount rate, b) Inflation rates, and c) Mortality/Life expectancy changes.

Sensitivities have been run to analyse the impact of a reasonable change in these estimations informed by discussions with scheme actuaries ISIO and internal Heathrow experts. The results of the sensitivities are shown in Note 20 of the Annual Report and Accounts.

Loss given default and assumed recovery rates
Accounting standards require that the fair value of financial instruments reflect their credit quality, and also the assumed recovery rate which then implies a loss given default rate. The credit risk associated with the Group's derivatives is updated monthly based on current market data, and industry standard default rates. However certain derivatives are ranked higher in the waterfall priority payments schedule such as interest rate swaps and inflation-linked swaps and therefore and apply a super senior recovery rate. The results of the sensitivities are given in Note 18 of the Annual Report and Accounts.

1 Segment information

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

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

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis.

The reportable segments derive their revenues from a number of sources and this information is also provided to the Board on a monthly basis.

- Table (a) details total revenue from external customers for the year ended 31 December 2021 and is broken down into aeronautical, retail, ORCs and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is Adjusted EBITDA which is earnings before interest, tax, depreciation, amortisation and certain re-measurements.
- Table (b) details the transaction price allocated to (partially) unsatisfied performance obligations.
- Table (c) details depreciation, amortisation and fair value adjustments.
- Table (d) details asset and liability information by reportable segment. The assets and liabilities information by segment is not provided to the Board on a monthly basis but is included in this note as additional information.
- Section (e) details revenue and non-current asset information by geographical segment.

Table (a)	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Segment Revenue Under IFRS 15		
Aeronautical		
Movement charges[1]	**367**	244
Parking charges	**57**	62
Passenger charges[1]	**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
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	**387**	272
Heathrow	**398**	286
Heathrow Express	**(11)**	(14)

Heathrow Airport Holdings Limited

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

Reconciliation to statutory information:		
Depreciation and amortisation	**(802)**	(820)
Operating loss (before certain re-measurements and *exceptional items*)	**(415)**	(548)
Exceptional items	**(31)**	(184)
Fair value gain/(loss) on investment properties (certain re-measurements)	**174**	(412)
Operating loss	**(272)**	(1,144)
Finance income	**8**	14
Finance costs	**(1,503)**	(855)
Loss before tax	**(1,767)**	(1,985)

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2021 are as set out below:

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

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

Revenue of £359 *million (2020: £333 million) was derived from a single external customer and has been included within the* Heathrow segment.

Table (c)

	Year ended 31 December 2021		Year ended 31 December 2020	
	Depreciation & amortisation[1] £m	**Fair value gain[2] £m**	Depreciation & amortisation[1] £m	Fair value loss[2] £m
Heathrow	**(769)**	**174**	(777)	(412)
Rail	**(33)**	**-**	(43)	-
Total	**(802)**	**174**	(820)	(412)

[1] Includes intangible asset amortisation charges of £39 million (2020: £48 million).
[2] *Reflects fair value gains/(loss) on investment properties only.*

Table (d)	**Year ended 31 December 2021**		Year ended 31 December 2020	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Heathrow	**17,680**	**(340)**	16,241	(402)
Heathrow Express	**594**	**(27)**	643	(13)
Total operations	**18,274**	**(367)**	16,884	(415)
Unallocated assets and liabilities:				
Cash, term deposits, equity investment and external borrowings	**2,943**	**(18,391)**	3,971	(19,750)
Retirement benefit obligations	**343**	**(30)**	12	(31)
Derivative financial instruments	**446**	**(2,244)**	802	(1,155)
Deferred and current tax asset/(liabilities)	**3**	**(644)**	2	(735)
Amounts owed from/(to) group undertakings	**97**	**(897)**	95	(897)
Right of use assets and lease liabilities	**270**	**(371)**	285	(392)
Total	**20,376**	**(22,944)**	22,051	(23,375)

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

(e) Revenue and non-current asset information by geographical segment

Heathrow Airport Holdings Limited is domiciled in the UK. All revenue from external customers originates in the UK which for the year ended 31 December 2021 was £1,214 million (2020: £1,175 million). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

Non-current assets excluding derivative financial instruments were £16,798 million (2020: £16,821 million). There were no non-current assets held outside the UK (2020: £nil).

2 Operating costs

Operating costs comprise:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Employment[1]		
Wages and salaries	**210**	242
Social security costs	**26**	29
Other pension costs	**35**	38
Other staff related costs	**10**	18
Own staff costs capitalised	**(14)**	(37)
	267	290
Operational	**197**	225
Maintenance	**134**	140
Business rates	**120**	116
Utilities	**59**	63
Other	**50**	69
Operating costs before depreciation and amortisation	**827**	903
Depreciation and amortisation:		
Property, plant and equipment	**723**	734
Right of use assets	**40**	38
Intangible assets	**39**	48
	802	820
Operating costs before exceptional items	**1,629**	1,723
Exceptional items (Note 3)	**31**	184
Total operating costs[2]	**1,660**	1,907

[1]Government grants of £21 million (2020: £36 million) have been received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. The grants received are included within the wages and salaries line above and reduce the total expense recognised in the year. Additionally, £12 million was received through the airport and ground operations support scheme (2020: nil) which has been credited against insurance costs within Operational costs. "There are no unfulfilled conditions or contingencies attached to these grants.

Auditor's remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by Heathrow Airport Limited.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Fees payable to the Company's auditor for the annual audit of the:		
Company's ultimate parent	**0.2**	0.1
Company's subsidiaries[1]	**1.0**	0.7
Total audit fees	**1.2**	0.8
Fees payable to the Company's auditor and their associates for other services specific to the Group		
Audit related assurance services	**0.2**	0.5
Other services	**0.2**	0.1
Total non-audit fees	**0.4**	0.6
Total fees	**1.6**	1.4

[1] Fees payable to the Company's auditors for the audit of the Company's financial statements were £107,000 (2020: £65,000)

2 Operating costs *continued*
Non-audit fees predominantly relate to audit related assurance services provided in connection with the half-year review of Heathrow (SP) Ltd.

Employee numbers
Heathrow Airport Holdings Limited had a monthly average of 5,573 employees (2020: 7,503) of which 109 (2020: 163) are employees of Heathrow Express Operating Company Limited and the rest are legally employed by LHR Airports Limited. The Group makes all employment decisions; consequently, employee numbers for those providing services to the operation of the airport are reported in the financial statements of the Group and not in the financial statements of LHR Airports Limited.

	Year ended 31 December 2021	Year ended 31 December 2020
United Kingdom		
Heathrow	**5,323**	7,197
Other operations	**250**	306
Total	**5,573**	7,503

By activity	**Year ended 31 December 2021**	Year ended 31 December 2020
Operations	**4,460**	5,224
Support services	**1,113**	2,279
Total	**5,573**	7,503

Management and Directors' remuneration

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Key management compensation[1]		
Salaries and short-term employee benefits[2]	**7,134**	5,545
Sum paid to related parties for directors' services	**1,200**	1,200
	8,334	6,745

[1] Key management of the Company is the Board of Directors of FGP Topco Limited and members of the Executive Committee of Heathrow Airport Holdings Limited who control and direct the Group's operational activities and resources.
[2] For the year ended 31 December 2021 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

Key management participate in the Heathrow Long-Term Incentive Plan designed to reward the most senior leaders for the success of Heathrow over a three-year period. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on RAB and other operational targets over a three-year period.

Directors' remuneration

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Aggregate emoluments[1]	**2,940**	1,934
Sums paid to related parties for Directors' services	**1,200**	1,200
	4,140	3,134

[1] For the year ended 31 December 2021 aggregate emoluments includes salaries, allowances, director fees, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

During the year, the highest paid director had no retirement benefits accruing to him under a defined contribution scheme and no retirement benefits accruing to him under a defined benefit scheme.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

2 Operating costs *continued*
Highest paid director

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Salary and allowances	**1,002**	802
Bonus accrued	**498**	-
Amount accrued under LTIPs	**-**	-
	1,500	802

During the year, the highest paid director had no retirement benefits accruing to him under a defined contribution scheme and no retirement benefits accruing to him under a defined benefit scheme.

The highest paid director participates in the Heathrow Long-Term Incentive Plan designed to reward them for the success of Heathrow over a three-year period. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on RAB and other operational targets over a three-year period. Directors remuneration in 2020 in respect of the 2018 three-year plan was nil as the highest paid director waived their SIS entitlement.

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

Year ended 31 December 2020 exceptional items

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

4 Financing

Net finance costs before certain re-measurements	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Finance income		
Income from equity investments	-	-
Interest on deposits	**8**	14
Total finance income	**8**	14
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(640)**	(549)
Bank loans and overdrafts and unwind of hedging reserves	**(117)**	(120)
Net interest expense on external derivatives not in hedge relationship[2]	**(6)**	21
Interest payable to group undertakings	**(56)**	(3)
Facility fees and other charges	**(13)**	(19)
Finance cost on lease liabilities	**(16)**	(16)
	(848)	(686)
Less: capitalised borrowing costs[3] (Note 7)	**10**	33
Total finance costs	**(838)**	(653)
Net finance costs before certain re-measurements	**(830)**	(639)
Certain re-measurements		
Fair value (loss)/gain on financial instruments		
Interest rate swaps: not in hedge relationship	**(102)**	(65)
Index-linked swaps: not in hedge relationship	**(529)**	(75)
Cross-currency swaps and debt: not in hedge relationship[4]	**(15)**	11
Cross-currency swaps and debt: ineffective portion of cash flow hedges[5]	**(10)**	(14)
Cross-currency swaps and debt: ineffective portion of fair value hedges[5]	**(9)**	(59)
	(665)	(202)
Net finance costs	**(1,495)**	(841)

[1]Includes accretion of £111 million (2020: £24 million) on index-linked bonds.
[2]Includes accretion of £318 million on index-linked swaps (2020: £75 million on index-linked swaps and including prepaid discount).
[3]Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 1.91% (2020: 3.82%) to expenditure incurred on such assets.
[4]Includes foreign exchange retranslation 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

5 Taxation credit/(charge)

	Year ended 31 December 2021			*Year ended 31 December 2020*			
	Before Certain re-measurements £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							
Current tax credit/(charge) at 19% (2020: 19%)	**4**	**(2)**	**2**	77	(2)	27	102
Under provision in respect of prior years	**-**	**-**	**-**	(3)	-	-	(3)
Total current tax credit/(charge)	**4**	**(2)**	**2**	74	(2)	27	99
Deferred tax							
Current year credit/(charge)	**249**	**141**	**390**	131	106	(9)	228
((Under)/over provision in respect of prior years	**(1)**	**-**	**(1)**	3	6	-	9
Change in tax rate	**-**	**(196)**	**(196)**	-	(106)	-	(106)
Total deferred tax credit/(charge)	**248**	**(55)**	**193**	134	6	(9)	131
Taxation credit/(charge) for the year	**252**	**(57)**	**195**	208	4	18	230

5 Taxation credit/(charge) *continued*

The tax credit/(charge) on the Group's (loss) before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting loss of the Group for the reasons as set out in the following reconciliation:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss before tax	**(1,767)**	(1,985)
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 19% (2020: 19%)	**336**	377
Net non-deductible expenses	**(23)**	(35)
Adjustments in respect of current income tax of previous years	**-**	(3)
Adjustments in respect of deferred income tax of previous years	**(1)**	9
Difference in deferred income tax movement for investment property and financial instruments	**13**	(12)
Changes in tax rate	**(130)**	(106)
Taxation credit for the year	**195**	230

The total tax credit recognised for the year ended 31 December 2021 was £195 million (2020: £230 million) on a loss before tax for the year ended 31 December 2021 of £1,767 million (2020: £1,985 million).

The tax credit before certain re-measurements and exceptional items for the year ended 31 December 2021 was £252 million (2020: £107 million). Based on a loss before tax, certain re-measurements and exceptional items of £1,245 million (2020: £1,187 million), this results in an effective tax rate of 20.2% (2020: 17.5%). 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 credit) arising from fair value gains on investment property revaluations netted off against fair value losses on financial instruments and any prior year adjustments, along with a £196 million tax charge associated with the impact on deferred tax balances of the substantive enactment of the increase in the corporation tax rate from 19% to 25%, to take effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase has been reflected in the deferred tax balances in the financial statements. .

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

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

6 Dividends

During the year ended 31 December 2021, no dividends were paid. During the year ended 31 December 2020, the Company paid dividends of £100 million (£0.002 per share) to ADI Finance 2 Limited on 27 February 2020.

7 Property, plant and equipment

	Note	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2020		12,070	1,567	943	260	1,292	1,270	17,402
Additions		-	-	-	-	-	414	414
Transfers to completed assets		286	59	90	21	13	(469)	-
Borrowing costs capitalised	4	-	-	-	-	-	33	33
Disposals		(16)	(8)	(25)	-	(1)	-	(50)
Capital write-off	3	-	-	-	-	-	(92)	(92)
Transfer from investment properties	9	-	-	-	1	-	-	1
Transfer to intangibles	10	-	-	-	-	-	(63)	(63)
Transfer from intangible		-	-	-	-	-	12	12
1 January 2021		**12,340**	**1,618**	**1,008**	**282**	**1,304**	**1,105**	**17,657**
Additions		-	-	-	-	-	**285**	**285**
Borrowing costs capitalised	4	-	-	-	-	-	**10**	**10**
Disposals		**(2)**	-	**(2)**	**(1)**	**(174)**	-	**(179)**
Capital write-off	3	-	-	-	-	-	**(24)**	**(24)**
Transfer from investment properties	9	-	-	-	-	-	**(1)**	**(1)**
Transfer to intangibles	10	-	-	-	-	-	**(17)**	**(17)**
Reclassifications		-	-	-	**29**	-	**(29)**	-
Transfers to completed assets		**71**	**(14)**	**44**	**48**	-	**(149)**	-
31 December 2021		**12,409**	**1,604**	**1,050**	**358**	**1,130**	**1,180**	**17,731**
Depreciation and impairment								
1 January 2020		(4,232)	(408)	(421)	(74)	(505)	-	(5,640)
Charge for the year		(498)	(57)	(119)	(20)	(40)	-	(734)
Disposals		16	8	25	-	1	-	50
31 December 2020		**(4,714)**	**(457)**	**(515)**	**(94)**	**(544)**	-	**(6,324)**
Charge for the year		**(500)**	**(59)**	**(94)**	**(21)**	**(49)**	-	**(723)**
Disposals		**2**	-	**2**	**1**	**160**	-	**165**
31 December 2021		**(5,212)**	**(516)**	**(607)**	**(114)**	**(433)**	-	**(6,882)**
Net book value								
31 December 2021		**7,197**	**1,088**	**443**	**244**	**697**	**1,180**	**10,849**
31 December 2020		7,626	1,161	493	188	760	1,105	11,333

Other land and buildings
Other land and buildings are freehold except for leasehold properties which are presented in note 8.

Assets in the course of construction
The major balances in assets in the course of construction include accumulated costs related to Heathrow Expansion, Baggage programme projects to install the latest generation of Baggage screening machines, the Asset Management programme to replace assets at the end of their useful life, and the Airport resilience programme including tunnels and airfield improvements. Also included in additions to assets in the course of construction are intangible asset additions, primarily computer software costs, with an estimated value of £17 million (2020: £20 million), which will be transferred to intangible assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use.

Accelerated Depreciation
Depreciation in 2021 includes £17.6million of accelerated depreciation on Heathrow Express rail assets. Depreciation in 2020 included accelerated depreciation of £4.1million on two of the Group's head office locations. In its assessment, Management considered any climate-related risks (as described in the Task Force on Climate-Related Disclosures on pages 66– 67 and associated strategic capital projects that could impact the useful economic lives of Property, Plant and Equipment with no resultant change in useful economic lives.

7 Property, plant and equipment *continued*

Capital write-off
As outlined on page 17, the regulatory environment that the Group operates in provides cash flow predictability, supporting investment. This limits the Group's exposure to impairment of assets in the course of construction in exceptional circumstances. In 2020, the Group impaired £92 million of capital projects that had commenced but that were expected to be discontinued or delayed to such an extent that rework would be required following the impact of COVID-19. This impairment was determined based on Management's best estimates of the full impact of COVID-19 on the operations of the Group. Following a reassessment, a further impairment of £24 million has been recognised in the year reflecting further cancelled or paused projects with an additional £7 million impairment recognised within intangible assets.

Borrowing costs capitalised
During the year ended 31 December 2021, borrowing costs of £10 million were capitalised (2020: £33 million). Capitalised borrowing costs were calculated by applying an average interest rate of 1.91% (2020: 3.82%) to expenditure incurred on qualifying assets.

A tax deduction of £10 million (2020: £33 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Regulatory asset base (RAB)
RAB at December 2021 was £17,474 million (2020: £16,492 million). The main drivers of increase in RAB are inflation and the CAA's interim RAB adjustment partly offset by higher assumed ordinary regulatory depreciation.

Leased assets
Included within total property, plant and equipment above, the Group had assets rented to third parties under operating leases as follows:

	31 December 2021	31 December 2020
	£m	£m
Cost or valuation	**881**	628
Accumulated depreciation	**(455)**	(314)
Net book value	**426**	314

Securities granted by the Group over its assets, including property, plant and equipment, are disclosed in Note 16.

8 Leases

Group as a lessee
The Group leases assets including land and buildings, vehicles, plant and equipment and rolling stock.

(i) Amounts recognised in the balance sheet

Right-of-use assets

	Land and Buildings	**Plant and Equipment**	**Others[1]**	**Total**
	£m	**£m**	**£m**	**£m**
Balance at 1 January 2020	37	7	232	276
Additions	-	2	40	42
Re-measurements	-	-	7	7
Disposal	-	(1)	(1)	(2)
Depreciation charge for the year	(13)	(3)	(22)	(38)
Balance at 31 December 2020	**24**	**5**	**256**	**285**
Re-measurements	**22**	**-**	**3**	**25**
Depreciation charge for the year	**(13)**	**(1)**	**(26)**	**(40)**
Balance at 31 December 2021	**33**	**4**	**233**	**270**

[1] A significant portion of the leased assets classified under 'Others' category relates to the electricity distribution network at the Airport.

8 Leases *continued*

Group as a lessee *continued*

Five of the leases expired during the year ended 31 December 2021 (2020: three).

Lease liabilities

	2021 **£m**	2020 £m
Current	**40**	43
Non-current	**331**	349

Maturity analysis

	2021 **£m**	2020 £m
Less than one year	**40**	43
One to five years	**88**	101
More than five years	**243**	248

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function. A risk that the Group faces is to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

(ii) Amounts recognised in profit and loss

	2021 **£m**	2020 £m
Depreciation expense on right-of-use assets	**40**	38
Interest expense on lease liabilities	**16**	16
Expense relating to variable payments not included in the measurement of the lease liability	**4**	5

(iii) Amounts recognised in statement of cash flows

The Group has some contracts that contain variable lease payment terms linked to the retail price index (RPI), aligned to the Group's regulatory environment which provides cash flow predictability through passenger pricing (revenue) linked to RPI. The breakdown of the lease payments are as follows:

	2021 **£m**	2020 £m
Fixed payments	**17**	27
Variable payments	**32**	36
Total cash outflow relating to leases	**49**	63

Group as a lessor

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

	2021 **£m**	2020 £m
Operating lease		
Property (lease-related income)	**103**	107

8 Leases *continued*

Operating lease

The Group leases out a portion of its investment property. The Group has classified these as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease income, showing the undiscounted lease income to be received after the reporting date.

	2021	2020
	£m	£m
Within one year	**72**	69
One to two years	**57**	58
Two to three years	**48**	50
Three to four years	**45**	44
Four to five years	**38**	41
More than five years	**1,845**	1,833
	2,105	2,095

9 Investment properties

	Car park	**Airport operations**	**Land and other**	**Total**
	£m	**£m**	**£m**	**£m**
Valuation				
1 January 2020	1,330	578	614	2,522
Additions	-	-	9	9
Transfers to property, plant and equipment	-	-	(1)	(1)
Fair value movements	(313)	(58)	(41)	(412)
31 December 2020	**1,017**	**520**	**581**	**2,118**
Additions	-	-	4	4
Transfers to property, plant and equipment	-	-	1	1
Fair value movements	115	9	50	174
31 December 2021	**1,132**	**529**	**636**	**2,297**

	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Valuation				
1 January 2020	-	1,308	1,214	2,522
Additions	-	9	-	9
Transfers to property, plant and equipment	-	(1)	-	(1)
Fair value movements	-	(73)	(339)	(412)
31 December 2020	-	**1,243**	**875**	**2,118**
Additions	-	4	-	4
Transfers to property, plant and equipment	-	1	-	1
Fair value movements	-	110	64	174
31 December 2021	-	**1,358**	**939**	**2,297**

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

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

9 Investment properties *continued*

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

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

Level 3 inputs are based on unobservable inputs which relate to discounted cash flow technique using an appropriate asset discount rate including growth rates for the relevant revenues and costs. Most of this classification is made up of car parks which accounts for 89% (2020: 89%) of the valuation. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues too.

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

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

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

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

The sensitivities analysis below relates specifically to fair value movements in car parks within the level 3 valuation that comprises 94% (2020: 92%) of the total. Therefore, the valuation of level 3 has been determined based on reasonably possible changes to the respective assumptions. The methodology used in arriving at the incremental changes shown is consistent with that used for the valuation at the year end.

	Increase/(decrease) in asset valuation
	£m
Car parks – Base revenue	
+10.0% pa	**39**
-10.0% pa	**(39)**
Car parks – Revenue growth	
+1.0% pa	**143**
-1.0% pa	**(129)**
Car parks – Operating costs growth	
+1.0% pa	**(42)**
-1.0% pa	**38**

The property rental income earned by the Group from its investment property, amounted to £88 million (2020: £78 million). Direct operating expenses arising on the investment property, all of which generated rental income in the period, amounted to £1 million (2020: £1 million).The Group has entered into contracts for the maintenance of its investment property, which will give rise to an annual charge of less than £1 million (2020: less than £1 million).

Securities granted by the Group over its assets, including investment properties, are disclosed in Note18.

10 Intangible assets

	Note	Goodwill £m	Software costs £m	Retail contracts £m	Total £m
Cost					
1 January 2020		2,753	288	64	3,105
Disposals		-	(3)	-	(3)
Transfers from completed assets	*7,9*	-	51	-	51
31 December 2020		**2,753**	**336**	**64**	**3,153**
Disposals		**-**	**-**	**(64)**	**(64)**
Impairment		**-**	**(7)**	**-**	**(7)**
Transfers from completed assets	*7,9*	**-**	**17**	**-**	**17**
31 December 2021		**2,753**	**346**	**-**	**3,099**
Amortisation and impairment					
1 January 2020		-	(112)	(58)	(170)
Charge for the year	2	-	(44)	(4)	(48)
Disposals		-	3	-	3
31 December 2020		**-**	**(153)**	**(62)**	**(215)**
Charge for the year	2	**-**	**(37)**	**(2)**	**(39)**
Disposals		**-**	**-**	**64**	**64**
31 December 2021		**-**	**(190)**	**-**	**(190)**
Net book value					
31 December 2021		**2,753**	**156**	**-**	**2,909**
31 December 2020		2,753	183	2	2,938

Goodwill

Goodwill relates to the excess of the purchase consideration paid over the carrying values of the net assets of the Heathrow Airports Holdings Group, which was acquired in June 2006, and represents the potential for long term growth in the infrastructure and passenger traffic and tariffs. As at 31 December 2021, the Group has two operating segments; Heathrow and Heathrow Express. Goodwill is allocated wholly to Heathrow, representing the core assets driving long term value.

The recoverable amount of the Group has been calculated using the fair value less cost to sell methodology. Fair value has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant plan over the period until year 2041. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection has been calculated applying a multiple of 1.15x RAB.

An impairment test is a comparison of the carrying value of the assets of a CGU, to their recoverable amount calculated as the higher of fair value less cost to sell and Value In Use (VIU). When the recoverable amount is less than the carrying value, impairment exists. The carrying value of goodwill was tested for impairment as at 31 December 2021. No impairment charges resulted.

Short term projections are based on the latest forecast approved by the Board in December 2021. Longer term projections reflect Heathrow's emerging Expansion plans and climate change considerations. Due to the nature of the regulatory arrangement and the significant headroom in the goodwill valuation and climate change risks are not considered to have a material impact on the valuation of goodwill. As explained in the TCFD section of these Annual Report and Accounts on page 74, physical risks associated with climate change are not expected to require material levels of additional capital expenditure outside of the Group's existing capital plans, and passenger numbers under the adopted Widespread Innovation scenario forecasts adequate long-term passengers to support Heathrow's own long-term cash flow forecasts.

10 Intangible assets *continued*

Key judgements and assumptions

In determining the fair value of the group, management has made a number of assumptions based on recent experience and is consistent with relevant external sources of information. The key assumptions used in determining the recoverable amounts are:

- Return allowed by the regulator and discount rates. The assumptions made for the return allowed by the regulator reflect Management's view of the airport's cost of capital and expectations of the result of future price determinations.
- Forecast passenger numbers. The Directors' determination of future passenger numbers, including assumptions associated with the return to pre-pandemic passenger demand and the long-term demand associated with climate change risks outlined in the TCFD on page 72.
- Discount rates. The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount in the base case was 8.5%.
- Cost of debt. Long-term assumptions for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Sensitivity analysis

The sensitivity of Heathrow's fair value to changes in key assumptions has been tested. The most relevant impacts relate to the expected CAA passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026) and the WACC applied.

The Group has carried out sensitivity analyses on the reasonably possible changes in key assumptions in the impairment tests. Management has stress tested the base case with a severe but plausible downside scenario, representing a worst- case view. For the purposes of stress testing the base case, Management has applied the low end of the CAA's proposed pricing range in combination with applying the lower WACC of 5.75% as published within the CAA's WACC calculation range. The impact of applying both of these sensitivities did not result in any indicators of impairment. Due to the nature of the regulatory arrangement and the significant headroom in the valuation, climate change risks are not considered to have a material impact on the valuation of investments in subsidiaries.

In all sensitivity cases, headroom over goodwill would remain over £4 billion.

Software costs

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

11 Equity investments

	2021	2020
	£m	£m
Unlisted securities		
1 January	23	31
(Loss)/gain recognised in equity	-	(8)
31 December	**23**	23

Equity investments designated as FVOCI relates to the Group's 4.19% equity interest in National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider. The Group does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an equity investment.

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031. A rate of 6.30% (2020: 5.51%) has been used as the discount factor.

Disclosure of the Group's financial risk management framework that includes the governance of its equity investments is included in Note 18.

12 Inventories

	£m	£m
Consumables	**13**	14

The total value of inventories consumed in the year was £4 million (2020: £7 million). There is no material difference between the value of inventories in the statement of financial position and their replacement cost.

13 Trade and other receivables

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Non-current		
Prepayments[1]	**13**	15
Amounts owed by parent entity	**93**	93
Other receivables	**7**	4
	113	112
Current		
Trade receivables	**98**	84
Accrued Income[2]	**64**	34
Trade receivables and accrued income	**162**	118
Less: provision for impairment	**(20)**	(17)
Trade receivables and accrued income after impairment[3]	**142**	101
Prepayments[1]	**32**	357
Other receivables	**16**	6
	190	464

[1] Prepaid debt fees largely relate to financing fees paid on facilities not yet drawn and are amortised over the term of the facility.

[2] Accrued income is net of any amounts received in advance from customers.

[3] Prepayments included as current receivables at 31 December 2020 includes £258m relating to prepayments made to suppliers, including a £60 million payment to HMRC in relation to Heathrow's payroll taxes payable to HMRC during 2021. These prepayments were made in order to manage banking covenant ratios. The prepayments made in 2020 have fully unwound during 2021.

The fair value of trade and other receivables are not materially different from the carrying value. Note 18 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses.

Trade receivables are non-interest bearing and are generally on 14-day terms. No collateral is held as security.

As at 31 December 2021, trade receivables of £38 million (2020: £60 million) were fully performing. Trade receivables of £60 million (2020: £24 million) were past due. These relate to a number of independent customers for whom there is no recent history of default. Refer to Note 18, Financial instruments, for the aging profile of trade receivables under credit risk.

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

	£m
01 January 2020	5
Impairment for trade receivables	12
31 December 2020	**17**
Impairment for trade receivables	**3**
31 December 2021	**20**

As at 31 December 2021, trade receivables were considered for impairment under IFRS 9 resulting in a increase in provision of £3 million (2020: £12 million increase). Impaired receivables mainly relate to specific customers experiencing economic difficulties but also includes expected credit losses. Note 18 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The creation and release of any provisions for impaired receivables have been included in 'other' operating costs in the consolidated income statement as shown in Note 2.

13 Trade and other receivables *continued*

During the year, £1 million (2020: £1 million) of trade receivables were written off as there was no expectation of recovery.

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 18.

14 Restricted cash

	31 December 2021	31 December 2020
	£m	£m
Cash at bank and in hand	**-**	2
Short-term deposits	**19**	16
	19	18

15 Cash and cash equivalents and term deposits

	31 December 2021	31 December 2020
	£m	£m
Cash at bank and in hand	**67**	97
Short-term deposits	**184**	247
Cash and cash equivalents	**251**	344
Term deposits	**2,650**	3,586
Cash and cash equivalents, and term deposits	**2,901**	3,930

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates to their book value.

Within the Group, Heathrow Airport Limited, Heathrow Finance plc, LHR Airports Limited and LHR Insurance Services Limited hold investments in term deposits, which have an original maturity of more than three months. The increase in term deposits is the result of draw down on existing debt and utilisation of new financing raised in the year.

For the purposes of the Consolidated statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand, money market funds and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments, restricted cash and bank overdrafts.

	31 December 2021	31 December 2020
	£m	£m
Restricted cash	**19**	18
Unrestricted cash and cash equivalents	**251**	344
Total cash and cash equivalents	**270**	362

The Group may, from time to time, at major reporting dates prepay, in advance of the operating expense falling due to its suppliers', payments which are subsequently lodged into an escrow account. In accordance, with IAS 7, cash and cash equivalent balances have been shown in accordance with the definition and thus do not include these prepayments held in escrow, as these are amounts that are no longer available to the Group. These prepayments are an outflow of cash which have been recorded within prepayments that form part of the current, trade and other receivables balance.

16 Borrowings

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Current		
Secured		
Heathrow Funding Limited bonds		
8.500% £250 million bond due 2021	-	252
3.000% C$450 million due 2021	-	259
4.875% US$1,000 million due 2021	-	741
1.650% +RPI £180 million due 2022	234	-
1.875% €600 million due 2022	507	-
Total bonds	741	1,252
Heathrow Airport Limited loans	-	4
Heathrow Airport Limited debt		
Class A1 term loan due 2021	-	418
Total current (excluding interest payable)	741	1,674
Interest payable	240	244
Interest payable to parent	58	3
Total current	1,039	1,921
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	746	744
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	626	665
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	170	177
6.750% £700 million due 2026	691	690
2.650% NOK1,000 million due 2027	84	90
2.694% C$650 million due 2027	379	-
3.400% C$400 million bond due 2028	233	229
7.075% £200 million due 2028	216	218
4.150% A$175 million due 2028	99	113
2.625% £350 million due 2028	346	-
2.750% £450 million due 2029	445	444
2.500% NOK1,000 million due 2029	77	82
3.782% C$400 million bond due 2030	235	235
1.500% €750 million due 2030	657	735
1.125% €500 million due 2030	415	-
3.661% C$500 million due 2031	290	285
6.450% £900 million due 2031	961	965
Zero-coupon €50 million due January 2032	63	65
1.366% +RPI £75 million due 2032	92	87
Zero-coupon €50 million due April 2032	62	64
1.875% €500 million due 2032	418	446
0.101% +RPI £181.75m due 2032	192	182
3.7260% C$625 million due 2033	371	-

16 Borrowings *continued*

1.875% €650 million due 2034	**556**	636
4.171% £50 million due 2034	**50**	50
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**	75
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	**676**	643
0.800% JPY1,000 million due 2039	**64**	72
1.238%+RPI £100 million due 2040	**121**	115
0.362% +RPI £75 million due 2041	**80**	76
5.875% £750 million due 2041	**733**	733
3.500% A$125 million due 2041	**67**	-
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**742**	742
1.372%+RPI £75 million due 2049	**92**	87
2.750% £400 million due 2049	**393**	393
0.147%+RPI £160 million due 2058	**175**	166
Total Heathrow Funding Limited bonds	**13,769**	13,145
Heathrow Finance plc bonds		
4.750% £300 million due 2024	**299**	298
5.750% £250 million due 2025	**249**	249
3.875% £275 million due 2027	**274**	273
4.125% £300 million due 2029	**299**	299
Total Heathrow Finance plc bonds	**1,121**	1,119
Total bonds	**14,890**	14,264
Heathrow Airport Limited debt:		
Class A1 term loan due 2020	**-**	-
Class A2 term loan due 2024	**100**	100
Class A3 term loan due 2029	**199**	200
Revolving credit facilities	**-**	1,150
Term notes due 2026-2040	**928**	878
Loans	**-**	4
Heathrow Finance plc facilities	**1,235**	1,233
Total bank loans	**2,462**	3,565
Total external borrowings	**17,352**	17,829
Borrowings from parent	**897**	897
Total non-current	18,249	18,726
Total borrowings (excluding interest payable)	18,990	20,400

At 31 December 2021, the Group's consolidated nominal net debt was £15,421 million. It comprised £15,452 million in bond issues, £2,469 million in other term debt, £381 million in index-linked derivative accretion, £nil million in revolving credit and working capital facilities and £20 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,901 million in cash and cash equivalents and term deposits. Nominal net debt comprised £13,383 million senior net debt and £2,038 million in junior debt.

At 31 December 2021, total external non-current borrowings due after more than 5 years was £12,791 million (2020: £12,548 million), comprising £10,738 million (2020: £10,313 million) of bonds and £2,053 million (2020: £2,235 million) in bank facilities, excludes lease liabilities.

16 Borrowings *continued*

Interest Rate Benchmark Reform

The following table contains details of all of the financial instruments the Group holds at 31 December 2021 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark. As set out within the accounting policies, the amendments have been applied prospectively and therefore no comparatives are presented for 31 December 2020.

	Carrying value at 31 December 2021		Of which: Have yet to transition to an alternative benchmark interest rate:	
	Assets £m	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Non-derivative assets and liabilities exposed to GBP LIBOR				
Measured at amortised cost				
Cash and cash equivalents and term deposits	**2,901**	**-**	-	-
Long-term debt	-	**(1,636)**	-	-
Lease liabilities	**-**	**(371)**	-	-
	2,901	**(2,007)**	-	-
Derivatives	**188**	**(716)**	188	(716)
Total assets and liabilities exposed to GBP LIBOR	**3,089**	**(2,723)**	188	(716)

Throughout the transition period £2,786 million of floating rate GBP LIBOR-linked debt and facilities was impacted by iBOR transition, of which £1,636 million is held as amortised cost and transitioned to the alternative reference rates. In addition, the disclosure of fair value of these borrowings held as amortised cost will be impacted due to the change in applying an alternative reference rate discount curve.

Heathrow Funding Limited bonds

The maturity dates of the Heathrow Funding Limited bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and Heathrow Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 7.125% £600 million due 2024, 4.221% £155 million due 2026, 2.625% £350 million due 2028, 0.101%+RPI £182 million due 2032, 0.347%+RPI £75 million due 2035, 0.337%+RPI £75 million due 2036, 1.061%+RPI £180 million due 2036, 3.460% £105 million due 2038, 0.419%+RPI £51 million due 2038 and 0.362%+RPI £75 million due 2041 bonds wherein the redemption dates coincide with their legal maturity dates.

Fair value of borrowings

	31 December 2021		31 December 2020	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m
Current				
Short-term debt	**741**	**691**	1,674	1,685
Non-current				
Long-term debt	**17,352**	**19,048**	17,829	20,191
Borrowings from parent	**897**	**897**	897	897
	18,990	**20,636**	20,400	22,773

[1] Fair value of borrowings are for disclosure purposes only. Bonds and floating rate term loan fair values are taken from Bloomberg while Class B RPI inflation linked debt and floating rate facilities' fair values are based on discounted cashflow valuations.

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair value of listed borrowings is based on quoted prices at balance sheet date. For unlisted borrowings, the Group establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data, which are adjusted to allow any relevant credit risk (Level 2). The fair value of borrowings which have floating rate interest are assumed to materially equate to their nominal value.

16 Borrowings *continued*
At 31 December 2021, the fair value of debt classified as Level 1 and Level 2 was £16,277 million and £4,359 million respectively (2020: £16,628 million and £6,145 million respectively).

The average cost of the Group's external gross debt at 31 December 2021 was 1.72% (2020: 1.37%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked swap accretion. Including index-linked swap accretion, the Group's average cost of borrowing at 31 December 2020 was 3.79% (2020: 1.89%).

The RPI growth rate in the period reflected by a 12-month annualised increase of 7.1% in 2021 compared to an annualised increase of 1.2% in 2020.

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

	31 December 2021		31 December 2020	
	Nominal	**Fair value adjustment[1]**	Nominal	Fair value adjustment[1]
	£m	**£m**	£m	£m
Sterling debt	**200**	**3**	393	2
Euro denominated debt	**1,615**	**(52)**	1,615	(145)
USD denominated debt	**-**	**-**	621	(10)
CAD denominated debt	**337**	**(5)**	584	(25)
CHF denominated debt	**437**	**1**	437	(7)
AUD denominated debt	**96**	**(6)**	95	(15)
JPY denominated debt	**71**	**1**	71	-
NOK denominated debt	**176**	**6**	176	(1)
Designated in fair value hedge	**2,932**	**(52)**	3,992	(201)

[1] Fair value adjustment is comprised of fair value loss of £46 million (2020: £185 million loss) on continuing hedges and £6 million loss (2020: £16 million loss) on discontinued hedges.
[2] Nominal values are based on initial designation FX rates.

Securities and guarantees
Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. The total value secured is £19,011 million equal to the gross value of HAHL Group debt.

Heathrow (DSH) Limited and Heathrow Finance plc have also granted security over all of their assets, which includes first priority security interests in the share capital of Heathrow Finance plc and its wholly-owned subsidiary, Heathrow (SP) Limited, to secure their obligations under their financing agreements.

BAA Pension Trust Company Limited, as a trustee of the BAA Pension Scheme, is a Borrower Secured Creditor and ranks equally in an amount up to £284 million with senior (Class A) debt.

LHR Airports Limited has provided a guarantee and indemnity to Deutsche Trustee Company Limited (in its capacity as the 'Bond Trustee') in exchange for the conversion of certain classes of legacy bonds originally issued by LHR Airports Limited (the 'LHR Guaranteed Bonds') into Bonds. Pursuant to this guarantee and indemnity, LHR Airports Limited unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by Heathrow Funding Limited in respect of scheduled interest and payment of principal on such LHR Guaranteed Bonds.

Heathrow Funding Limited has given the Bond Trustee a covenant to pay and discharge, when due, to each of the Issuer Secured Creditors (including Bondholders) all Issuer Secured Liabilities (including all amounts due under the Bonds). The Bond Trustee holds the benefit of that covenant on trust for itself and the Issuer Secured Creditors. Heathrow Funding Limited has also granted security to the Bond Trustee (for itself and as trustee for the Issuer Secured Creditors) over its property, assets, undertakings and rights to secure the covenant to pay and discharge the Issuer Secured Liabilities.

16 Borrowings *continued*

Heathrow Airport Limited and Heathrow Express Operating Company Limited have provided a guarantee and indemnity in favour of Lloyds Bank plc (in its capacity as the Borrower Account Bank) in respect of each other's obligations under the Borrower Account Bank Agreement and associated financing agreements.

Additional disclosures on risk management and hedging of borrowings are included in Notes 17 and 18.

The total value secured is £19,110 million, equal to the gross value of FGP Topco Limited Group debt.

17 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.

At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. These fair values are supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instruments.

17 Derivative financial instruments *continued*

During the year, new interest rate swaps with a notional of £0.8 billion were executed in continuation of the theme where the Group will receive fixed coupon and pay SONIA with a spread close to zero for 2021 and 2022, where possible and an additional £0.4 billion executed to maintain hedging ratio compliance. This resulted in a fair value of £6 million (cost) at initial recognition and deferred on the balance sheet.

As at 31 December 2021, £276 million (2020: £300 million) remained deferred on the balance sheet and £30 million (2020: £29 million) had been recognised in the income statement for the period.

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

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

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

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.

18 Financial risk and management

Financial risk management objectives and policies
The Group's principal financial instruments (other than derivatives) comprise of loans, term notes, listed bonds, cash and short-term deposits; the main purpose of these instruments is to raise finance for the Group's operations; and additionally include trade and other receivables, trade and other payables and lease liabilities.

The Group also enters into derivative transactions, principally interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group mitigates the risk of mismatch between Heathrow's aeronautical income and its regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments by the use of index-linked instruments.

The Group's policy does not permit use of derivatives for speculative purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the

18 Financial risk and management *continued*

hedged item naturally offset in the Group's income statement. These instruments include index-linked contracts and foreign exchange forward contracts. The treasury function operates on a centralised basis, where Derivatives are only used for economic hedging purposes and not as speculative investments and are classified as 'held for trading', other than designated and effective

hedging instruments, and are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period, otherwise they are classified as non-current.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing each of the risks which are summarised below.

Interest rate benchmark reform

As listed below, the Group is exposed to interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform.

The following table contains details of all derivatives underpinned by IBOR floating rates used in the Group's hedging strategies which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark, such that phase 1 reliefs have been applied to the hedging relationships:

	Carrying Amount at 31 December 2021			Impact of transition on fair value	Notional amount directly impacted by IBOR reform
	Notional	Assets	Liabilities		
	£m	£m	£m	£m	£m
Summary derivatives underpinned by IBOR floating rates					
Cross-currency interest rate swap derivative designated hedge relationships	2,243	181	-	**(7)**	2,243
Cross-currency interest rate swap derivative not in designated hedge accounting relationships	75	7	-	**(1)**	75
Interest rate swap derivative not in designated hedge accounting relationships	3,795	-	(218)	**(2)**	3,795
Inflation linked swap derivative not in designated hedge accounting relationships	1,801	-	(496)	**(14)**	1,801

Each of the categories above are included within the Derivative financial asset and Derivative financial liability categories on the statement of financial position.

Heathrow is also aware that transition to potential development of RFR-based term rates is at different stages depending on the jurisdiction. The Group also expects that the timing of any transition away from relevant interbank offered rates to take into account liquidity of the development of robust RFR-based term rates, changes in relevant industry conventions and the speed with which market participants transition away from LIBOR. As a part of our treasury risk management strategy, the Group intends to follow milestones set out by the ICE Benchmark Administration ('IBA') with respect to providing LIBOR-linked products maturing after the end of 2021 and will also explore solutions to reduce our footprint in relation to LIBOR-linked products, under Phase 2 of the 'Interest rate benchmark reform'.

IBOR reform

Below are details of the LIBOR impacted hedging instruments and hedged items that have yet to transition, but are within the scope of IFRS 9, IAS 39, and IFRS 7 Interest Rate Benchmark Reform amendments. The terms of the hedged items listed, by hedge type, match those of the corresponding hedging instruments.

18 Financial risk and management *continued*
IBOR reform *continued*

Hedge Type	Instrument Type	Hedged item	Nominal value	Maturing in
Fair value hedges	Receive NOK fixed, pay 6-month GBP LIBOR currency swaps	NOK fixed rate issued debt	NOK 1,000m	2027
			NOK 1,000m	2029
	Receive CAD fixed, pay 6-month GBP LIBOR currency swaps	CAD fixed rate issued debt	CAD 500m	2025
			CAD 120m	2030
			CHF 400m	2024
	Receive CHF fixed, pay 6-month GBP LIBOR currency swaps	CHF fixed rate issued debt	CHF 210m	2026
			EUR 600m	2022
	Receive EUR fixed, pay 6-month GBP LIBOR currency swaps	EUR fixed rate issued debt	EUR 750m	2030
			EUR 650m	2034
	Receive AUD fixed, pay 6-month GBP LIBOR currency swaps	AUD fixed rate issued debt	AUD 175m	2028
	Receive JPY fixed, pay 6-month GBP LIBOR currency swaps	JPY fixed rate issued debt	JPY 10bn	2039

Hedging strategy

Cross currency swaps designated in fair value hedge
The Group also enter into cross currency swaps to swap to hedge and mitigate against the cash flows of currency coupons and the final principal exchange. The annual interest coupon payments are swapped into sterling LIBOR floating rates. Fair value hedge accounting has been applied to this relationship in addition to the existing cash flow hedge.

Cross currency swaps are designated as fair value hedges against the final settlement of currency-denominated public bonds to mitigate the functional currency exposure on the principal and interest payments. The Group's policy is to hedge against movements in foreign exchange rates and interest rate exposure, and to comply with the groups interest rate policy. The credit *adjustment and cross currency basis on the cross-currency swaps are courses of hedge ineffectiveness and are recognised in* the income statement.

The hedge ratio for each designation will be established by comparing the quantity of the hedging instrument and the quantity of the hedged item to determine their relative weighting; for all of the Group's existing hedge relationships the hedge ratio has been determined as 1:1.

These are held in a fair value hedge relationship with the debt items as identified and listed in the table shown below:

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Hedged FX rate	Swap maturity	Carrying value of hedged item 2021 £m	Carrying value of hedged item 2020 £m
3.000% C$450 million due 2021	-	6m LIBOR + 0.69%	2.03	2021	-	259
4.875% US$1000 million due 2021	-	6m LIBOR + 2.58%	1.54	2021	-	741
6.750% £700 million due 2026[2]	-	6m LIBOR + 0.87%	1.00	2021	-	223
7.075% £200 million due 2028[2]	-	6m LIBOR + 1.22%	1.00	2021	-	182
1.875% €600 million due 2022	490	6m LIBOR + 0.60%	1.16	2022	507	549
0.500% CHF400 million due 2024	277	6m LIBOR + 1.58%	1.45	2024	326	336
3.250% C$500 million due 2025	266	6m LIBOR + 0.88%	1.88	2025	294	301
0.450% CHF210 million due 2026	160	6m LIBOR + 0.99%	1.31	2026	170	177
2.650% NOK1,000 million due 2027	84	6m LIBOR + 0.72%	11.85	2027	84	90
4.150% A$175 million due 2028	96	6m LIBOR + 1.24%	1.82	2028	99	113
2.500% NOK1,000 million due 2029	91	6m LIBOR + 1.43%	10.97	2029	77	82
1.500% €750 million due 2030	566	6m LIBOR + 0.80%	1.16	2030	657	735
3.782% C$400 million due 2030[1,2]	71	6m LIBOR + 1.27%	1.68	2030	235	235
1.875% €650 million due 2034	559	6m LIBOR + 1.26%	1.16	2034	556	636
0.800% JPY1,000 million due 2039	71	6m LIBOR + 1.33%	141.44	2039	64	72

1 Bifurcation of hedge, fair value designation of C$120 million with the remaining balance designated in a cash flow hedge.
2 2020 balances have been aligned to current year presentation methodology.

Movement note

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Swap maturity	Change in value of hedged item 2021 £m	Change in value of hedging instrument 2021 £m	Change in value of hedged item 2020 £m	Change in value of hedging instrument 2020 £m
3.000% C$450 million due 2021	-	6m LIBOR + 0.69%	2021	10	(11)	1	(3)
4.875% US$1000 million due 2021	-	6m LIBOR + 2.58%	2021	19	(19)	22	(23)
6.750% £700 million due 2026	-	6m LIBOR + 0.87%	2021	1	(1)	2	(4)
7.075% £200 million due 2028	-	6m LIBOR + 1.22%	2021	-	(1)	1	(3)
1.875% €600 million due 2022	490	6m LIBOR + 0.60%	2022	42	(43)	(31)	23
0.500% CHF400 million due 2024	277	6m LIBOR + 1.58%	2024	11	(9)	(29)	21
3.25% C$500 million due 2025	266	6m LIBOR + 0.88%	2025	8	(10)	(12)	11
0.450% CHF210 million due 2026	160	6m LIBOR + 0.99%	2026	7	(7)	(10)	10
2.65% NOK1,000 million due 2027	84	6m LIBOR + 0.72%	2027	6	(6)	(5)	3
4.150% A$175 million due 2028	96	6m LIBOR + 1.24%	2028	14	(15)	(10)	10
2.50% NOK1,000 million due 2029	91	6m LIBOR + 1.43%	2029	5	(4)	(6)	3
1.50% €750 million due 2030	566	6m LIBOR + 0.80%	2030	79	(83)	(91)	56
3.782% C$400 million due 2030	71	6m LIBOR + 1.27%	2030	3	(3)	(4)	4
1.875% €650 million due 2034	559	6m LIBOR + 1.26%	2034	81	(85)	(51)	60
0.800% JPY10,000 million due 2039	71	6m LIBOR + 1.33%	2039	8	(5)	(3)	(1)

The fair value of cross-currency interest rate swaps designated in a fair value hedged at 31 December 2021 was £228 million (2020: £635 million) asset and £23 million (2020: £11 million) liability, respectively.

These cross-currency derivatives are included within "Derivative financial assets" and "Derivative financial liabilities" in the balance sheet. The notional hedged value is equal to the notional value impacted by IBOR reform.

Cross currency swaps designated in cash flow hedges
The Group hold cross-currency interest rate swaps to convert the principal and annual interest coupons, of some of the Groups non-GBP denominated bonds to a sterling debt notional with fixed GBP annual interest coupons.

We applied cash flow hedge accounting to these relationships to limit our currency cash flow exposure on the principal and interest payments. The hedge designations were fully effective in the 2021 and 2020 financial years as the notional amount, maturity, payment and reset dates match.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Hedged FX rate	Swap maturity	Carrying value of hedged item 2021 £m	Carrying value of hedged item 2020 £m
1.500% €750 million due 2025	681	2.34	1.10	2025	(40)	(15)
2.694% C$650 million due 2027	374	2.03	1.74	2027	6	-
3.400% C$400 million due 2028	226	2.66	1.77	2028	10	5
3.782% C$400 million due 2030[1]	167	2.93	1.68	2030	(2)	(6)
1.125% €500 million due 2030	427	2.33	1.17	2030	(14)	-
3.661% C$500 million due 2031	291	3.18	1.72	2031	(1)	(13)
1.875% €500 million due 2032	443	2.67	1.13	2032	(20)	4
3.726% C$300 million due 2033	173	2.81	1.74	2033	5	-
3.726% C$325 million due 2033	190	2.78	1.71	2033	5	-
3.500% A$125 million due 2041	68	2.44	1.84	2041	(4)	-

During the period, five currency bonds C$650 million, €500 million, C$300 million, C$325 million and A$125 million notional were swapped into GBP fixed rate debt.

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Swap maturity	Change in value of hedge item 2021 £m	Change in value of hedging instrument 2021 £m	Change in value of hedge item 2020 £m	Change in value of hedging instrument 2020 £m
1.500% €750 million due 2025	681	2.34%	2025	24	(24)	10	(14)
2.694% C$650 million due 2027	374	2.03%	2027	(12)	10	-	-
3.400% C$400 million due 2028	226	2.66%	2028	(7)	6	(5)	4
3.782% C$400 million due 2030[1]	167	2.93%	2030	(6)	6	(3)	1
1.125% €500 million due 2030	427	2.33%	2030	7	(10)	-	-
3.661% C$500 million due 2031	291	3.18%	2031	(11)	12	11	(14)
1.875% €500 million due 2032	443	2.67%	2032	22	(20)	(24)	10
3.726% C$300 million due 2033	173	2.81%	2033	(8)	7	-	-
3.726% C$325 million due 2033	190	2.78%	2033	(1)	5	-	-
3.500% A$125 million due 2041	68	2.44%	2041	2	(4)	-	-

The fair value of cross currency interest rate swaps designated in a cash flow value hedge at 31 December 2021 was £28 million (2020: £8 million) asset and £74 million (2020: £35 million) liability, respectively.

These cross-currency derivatives are included within "derivative financial assets" and "derivative financial liabilities" in the balance sheet.

Interest rate swaps designated in cash flow hedge

Interest rate swaps are designated as cash flow hedges to mitigate the interest payments on certain bonds, the nominal amounts hedged were discontinued during the prior year, with £23 million fair value loss deferred in frozen cash flow hedge reserves.

Interest rate risk

The Group's policy is to maintain a mix of fixed and floating rate debt within Board approved parameters such that a minimum of 75% of existing and forecast debt is at a fixed rate. It manages its cash flow interest rate risk by using floating or fixed interest rate swaps, where at three- or six-month intervals the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts are exchanged.

Floating interest rate swap contracts that exchange floating rate interest for fixed interest, have been designated as cash flow hedges to hedge the variability of the interest cash flows associated with floating rate debt. The interest rate swaps and the interest payments on the loan occur simultaneously, and the amount accumulated in equity is reclassified to Group's income statement over the period that the floating rate interest payments affect profit or loss.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

18 Financial risk and management *continued*

Fixed interest rate swap contracts that exchange fixed rate interest for floating interest, have been designated as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised liability. Changes in the fair value of derivatives that are designated as fair value hedges are recognised in the Group income statement within finance costs, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.
The critical terms of the interest rate swap contracts and their corresponding hedged items are the same. A qualitative assessment of effectiveness is performed, and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying interest rates. Moreover, where critical terms are inadequate, use is made of the hypothetical derivatives approach.

The main sources of ineffectiveness in these hedge relationships are the effects of the Group's own credit risk on the fair value of the interest rate swap contracts, that are not reflected in the fair value of the hedged item attributable to changes in interest rates; difference in critical terms between the hedging instrument and hedged item; and the markets expectation and anticipation when GBP LIBOR moves to SONIA at different dates. No other sources of ineffectiveness emerged from these hedging relationships.

Sensitivity analysis
Each 0.20% (2020: 0.15%) change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movements in the finance income, finance cost and mark-to-market valuation of derivatives:

	31 December 2021		31 December 2021	
	Income statement impact £m	***Equity impact* £m**	Income statement impact £m	Equity impact £m
LIBOR rate				
2021: 0.20% increase (2020: 0.15% increase)	**122**	-	110	-
2021: 0.20% decrease (2020: 0.15% decrease)	**(123)**	-	(111)	-
SONIA rate				
2021: 0.20% increase (2020: 0.15% increase)	**(29)**	-	(38)	-
2021: 0.20% decrease (2020: 0.15% decrease)	**29**	-	38	-

During 2021, the highest month-on-month 6-month GBP LIBOR curve movement averaged 0.30% (2020: 0.11%); therefore 0.20% (2020: 0.15%) is considered to be reasonable and provides an appropriate stress test.
In determining the fair value, judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps).

As at 31 December 2021, the super senior assumed recovery rate was 88% (2020: 79%), with all other variables remaining constant, if the assumed recovery rate had increased or decreased by 10% (2020: 5%), annual pre-tax profit would have decreased or increased by £51 million and £53 million respectively (2020: £12 million and £12 million respectively). A higher recovery rate has been applied in 2021 due to global default rates improving through 2021.

Foreign exchange risk
For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge the interest and principal payments. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed. The Group is not exposed to foreign exchange risk on borrowings after hedging. The Group is not materially exposed to foreign exchange risk on an economic basis.

Price risk
The Group is exposed to RPI risk on its index-linked bonds and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2021, with all other variables remaining constant, if the RPI had increased or decreased by 1%, annual pre-tax profit would have decreased or increased by £848 million and £775 million respectively (2020: a 1% increase or decrease leading to a £927 million increase and £839 million decrease respectively). During 2021, the highest month-on-month RPI curve movement averaged 1% and the highest month-on-month movement for a given term (1-year) was 1.5%. Therefore 1% is considered to be reasonable and provides an appropriate stress test.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

18 Financial risk and management *continued*

Credit risk

Credit risk arises from cash and cash equivalents, term deposits, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are us

The Group maintains a prudent split of cash and cash equivalents and term deposits across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2 (S&P)/F1 (Fitch). The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with long-term credit ratings below BBB- (S&P)/BBB- (Fitch).

As at 31 December 2020, the Group had credit risk on derivatives with asset mark to market of £446 million (2020: £802 million).

The maximum exposure to credit risk as at 31 December 2020 was £3,512 million (2020: £4,892 million).

Set-off of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. According to the enforceable master netting agreements with the counterparties, in the event of default, derivative financial instruments with the same counterparty and of similar payment seniority can be net settled. The table below shows the Group's financial assets and liabilities that are subject to offset in the balance sheet and the impact of enforceable master netting or similar agreements: In the event of default, subject to the priority payment enforcement, £145million (2020: £56 million) assets and £63 million (2020: £42 million) liabilities of the derivative financial instruments were subject to right for offsetting.

	Gross amount presented in balance sheet £m	Right of asset offset with derivative counterparty £m	Collateral asset/ liabilities £m	Net amount £m
31 December 2021				
Derivative financial assets	**446**	**(145)**	**63**	**364**
Derivative financial liabilities	**(2,244)**	**145**	**(63)**	**(2,162)**
31 December 2020				
Derivative financial assets	802	(56)	42	788
Derivative financial liabilities	(1,155)	56	(42)	(1,141)

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

Expected credit loss

The Group applies IFRS 9 for recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and, also according to the industry sector of the Group's customers.

The expected loss rates are based on Global industry default rates as well as the corresponding historical credit.

The historical rates are adjusted to reflect the loss given default factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period. Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery, therefore moving from 'Stage 2' to 'Stage 3'.

18 Financial risk and management *continued*

On the above basis the expected credit loss for trade receivables as at 31 December 2021 and 31 December 2020 was determined as follows:

31 December 2021	**Current**	**1-30 days**	**31-60 days**	**61-90 days**	**Over 180 days**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Trade receivables						
Gross carrying amount	**38**	**24**	**3**	**2**	**31**	**98**
Lifetime expected credit loss	**(6)**	**(3)**	**-**	**-**	**(11)**	**(20)**
Total adjusted receivables	**32**	**21**	**3**	**2**	**20**	**78**

31 December 2020	Current	1-30 days	31-60 days	61-90 days	Over 180 days	Total
	£m	£m	£m	£m	£m	£m
Trade receivables						
Gross carrying amount	60	9	1	1	13	84
Lifetime expected credit loss	(12)	(1)	-	-	(4)	(17)
Total adjusted receivables	48	8	1	1	9	67

Liquidity risk

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at the relevant date:

	31 December 2021	31 December 2020
	£m	£m
Floating rate facilities		
Expiring in more than two years and less than five years	**1,150**	-
	1,150	-

As at 31 December 2021, overdraft facilities of £10 million were available (2020: £10 million).

We have sufficient liquidity to meet all our forecast needs until at least February 2023 under the extreme stress-test scenario of no revenue, or well into 2023 under our current traffic forecast. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £4,051 million in cash resources as well as undrawn debt and liquidity as at 31 December 2021.

The tables below analyse the gross undiscounted contractual cash flows as at 31 December of the Group's financial liabilities and net settled derivative financial instruments to the contractual maturity date.

	31 December 2021			
	Less than one year	**One to two years**	**Two to five years**	**Greater than five years**
	£m	**£m**	**£m**	**£m**
Borrowing principal	**731**	**751**	**3,669**	**12,819**
Borrowing interest	**634**	**621**	**1,571**	**3,853**
Derivative financial instruments	**(319)**	**49**	**335**	**(762)**
Trade payables	**140**	**-**	**-**	**-**
Capital payables	**76**	**-**	**-**	**-**
Lease liabilities	**55**	**43**	**96**	**458**

Notes to the Group financial statements for the year ended 31 December 2021 *continued*
18 Financial risk and management *continued*

	31 December 2020			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal	1,541	717	4,453	12,340
Borrowing interest	648	593	1,575	3,859
Derivative financial instruments	(246)	(244)	152	(41)
Trade payables	184	-	-	-
Capital payables	39	-	-	-
Lease liabilities	59	53	100	470

The tables below analyse the expected gross undiscounted contractual cash flows as at 31 December of the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period to the contractual maturity date. *The table should be viewed in conjunction with the table presenting undiscounted cash flows on the Group's financial liabilities* and net settled derivative financial instruments.

	31 December 2021			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**145**	**140**	**371**	**504**
Cross-currency derivative receipts	**(147)**	**(121)**	**(321)**	**(511)**

	31 December 2020			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	99	101	235	328
Cross-currency derivative receipts	(137)	(116)	(261)	(742)

Capital risk management

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to the Regulatory Asset Base ('RAB'). Net debt is the external consolidated nominal net debt at the entity within the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels of the Group including Heathrow Finance plc. Gearing ratios of each of these are below:

	31 December 2021	31 December 2020
Net debt to RAB at Heathrow Finance plc	**0.885**	0.917
Total net debt to RAB at Heathrow (SP) Limited	***0.764***	*0.796*
Senior net debt to RAB at Heathrow (SP) Limited	**0.646**	0.684

At 31 December 2021, the Group's senior (Class A) and junior (Class B) gearing ratios were 64.6% and 76.4% 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 88.5% (31 December 2020: 91.7%) with a covenant of 95% following the waiver secured last July.

In August, we successfully received approval from Heathrow Finance's creditors (representing over 95% of the total debt) to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2021. This followed the approval received in July 2020 to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2020 and to amend the

18 Financial risk and management *continued*

Regulatory Asset Ratio covenant from 92.5% to 95.0% and 93.5% for the financial year ending on 31 December 2021 and 31 December 2022 respectively.

Financial instruments by category

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

	31 December 2021				
	Financial assets at amortised cost and cash equivalents	**Assets at fair value through income statement**	**Derivatives qualifying for hedge accounting**	**Equity investments**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Equity investments	-	-	-	**23**	**23**
Derivative financial instruments[1,2]	-	**189**	**257**	-	**446**
Cash and cash equivalents	**251**	-	-	-	**251**
Trade receivables	**142**	-	-	-	**142**
Term deposits	**2,650**	-	-	-	**2,650**
Total financial assets	**3,043**	**189**	**257**	**23**	**3,512**

[1] Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £228million.
[2] Designated in cashflow hedges of interest rate risk with changes in fair value recognised in losses taken to equity in other comprehensive income of £29 million.

	31 December 2021			
	Liabilities at fair value through income statement	**Derivatives qualifying for hedge accounting**	**Other financial liabilities at amortised cost**	**Total**
	£m	**£m**	**£m**	**£m**
Borrowings	-	-	**(18,990)**	**(18,990)**
Derivative financial instruments[1,2]	**(2,146)**	**(98)**	-	**(2,244)**
Trade payables	-	-	**(140)**	**(140)**
Capital payables	**(76)**	-	-	**(76)**
Lease liabilities	-	-	**(371)**	**(371)**
Total financial liabilities	**(2,222)**	**(98)**	**(19,501)**	**(21,821)**

[1] Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £23million.
[2] Designated in cashflow hedges of interest rate risk with changes in fair value recognised in losses taken to equity in other comprehensive income of £75 million.

	31 December 2020				
	Financial assets at amortised cost and cash equivalents	Assets at fair value through income statement	Derivatives qualifying for hedge accounting	Equity investments	Total
	£m	£m	£m	£m	£m
Equity investments	-	-	-	23	23
Derivative financial instruments[1,2]	-	154	648	-	802
Cash and cash equivalents	362	-	-	-	362
Trade receivables	101	-	-	-	101
Term deposits	3,586	-	-	-	3,586
Total financial assets	4,049	154	648	23	4,874

[1] Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £639 million.
[2] Designated in cashflow hedges of interest rate risk with changes in fair value recognised in losses taken to equity in other comprehensive income of £9 million.

	31 December 2020			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	-	(20,400)	(20,400)
Derivative financial instruments[1,2]	(1,109)	(46)	-	(1,155)
Trade payables	-	-	(184)	(184)
Capital payables	-	-	(39)	(39)
Lease liabilities	-	-	(392)	(392)
Total financial liabilities	(1,109)	(46)	(21,015)	(22,170)

[1] Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £11 million.
[2] Designated in cashflow hedges of interest rate risk with changes in fair value recognised in losses taken to equity in other comprehensive income of £35 million.

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.

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

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the year there were no transfers between the levels in the fair value hierarchy. The tables below present the Group's assets (other than investment properties) and liabilities that are measured at fair value as at 31 December:

	31 December 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets	-	-	-	-
Assets at fair value through income statement	-	-	-	-
Derivatives qualifying for hedge accounting	-	-	-	-
Equity investments	-	**23**	-	**23**
Total assets	-	**23**	-	**23**
	-	-	-	-
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
Equity investments	-	-	23	23
Total assets	-	802	23	825
Liabilities				
Liabilities at fair value through income statement	-	(1,109)	-	(1,109)
Derivatives qualifying for hedge accounting	-	(46)	-	(46)
Total liabilities	-	(1,155)	-	(1,155)

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the year there were no transfers between the levels in the fair value hierarchy. Changes in Level 3 instruments have been disclosed in Note 18.

19 Deferred income tax

The net movement on the deferred income tax account is as follows:

		2021	2020
	Note	**£m**	£m
1 January		**(735)**	(889)
Credited to income statement		**389**	237
Charged to income statement-change in tax rate		**(196)**	(106)
(Charged)/credited to comprehensive income	*24*	**(105)**	22
Credited to comprehensive income-change in tax rate	*24*	**3**	1
31 December		**(644)**	(735)

Deferred tax is analysed as follows:

	2021	2020
	£m	£m
Deferred income tax liabilities	**(1,391)**	(1,111)
Deferred income tax assets	**747**	376
31 December	**(644)**	(735)

19 Deferred income tax *continued*

The movements in deferred income tax assets and liabilities during the financial year are shown below.

Deferred income tax liabilities

	Excess of capital allowances over depreciation	Revaluations of investment property to fair value	Revaluations of property, plant and equipment	Fair value of long-term borrowings	Fair value of retail contracts	Post-employment benefits	Other	Total
	£m	£m	£m	£m	£m	£m	£m	
01 January 2020	(835)	(220)	(38)	-	-	(1)	(19)	(1,113)
Credited/(charged) to income statement	66	67	-	-	-	-	(1)	132
Charged to income statement-change in tax rate	(98)	(26)	(1)	-	-	-	(2)	(127)
Charged to other comprehensive income			(3)	-	-		(1)	(4)
Transfer to deferred income tax assets	-	-		-	-	1		1
31 December 2020	**(867)**	**(179)**	**(42)**	**-**	**-**	**-**	**(23)**	**(1,111)**
Credited/(charged) to income statement	**117**	**(36)**	**-**	**-**	**-**	**-**	**3**	**84**
Charged to income statement – change in tax rate	**(211)**	**(56)**	**-**	**-**	**-**	**-**	**(6)**	**(273)**
Credited to other comprehensive income	-	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Charged to other comprehensive income – change in tax rate	-	**-**	**(13)**	**-**	**-**	**-**	**(1)**	**(14)**
Transfer from deferred income tax assets	**-**	**-**	-	-	**-**	**(79)**	**-**	**(79)**
31 December 2021	**(961)**	**(271)**	**(55)**	**-**	**-**	**(79)**	**(25)**	**(1,391)**

Deferred income tax assets

	Capital losses	Non trade deficit	Financial instruments	Fair value of long-term borrowings	Fair value uplift of bonds	Post employment benefits	IFRS 16 Leases	Other losses[1]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
01 January 2020	10	55	113	18	10	-	18	-	224
Credited/(charged) to income statement	-	3	57	(2)	(2)	(20)	-	69	105
Credited to income statement - change in tax rate	1	7	9	2	1	1	-	-	21
(Charged)/credited to other comprehensive income	-	-	(2)	-	-	24	-	-	22
Credited/(charged) to other comprehensive income – change in tax rate	-	-	4	-	-	(1)	2	-	5
Transfer to deferred income tax liabilities	-	-	-	-	-	(1)	-	-	(1)
31 December 2020	**11**	**65**	**181**	**18**	**9**	**3**	**20**	**69**	**376**
(Charged)/credited to income statement	**-**	**(1)**	**193**	**(1)**	**(3)**	**6**	**(2)**	**113**	**305**
Credited to income statement - change in tax rate	**3**	**21**	**40**	**5**	**2**	**2**	**-**	**4**	**77**
Charged to other comprehensive income	**-**	**-**	**(18)**	**-**	**-**	**(89)**	**-**	**-**	**(107)**
Charged/credited to other comprehensive income – change in tax rate	**-**	**-**	**12**	**-**	**-**	**(1)**	**6**	**-**	**17**
Transfer to deferred income tax liabilities	**-**	**-**	**-**	**-**	**-**	**79**	**-**	**-**	**79**
31 December 2021	**14**	**85**	**408**	**22**	**8**	**-**	**24**	**186**	**747**

[1] Of the closing £186m deferred tax asset, £24m relates to trading losses and the balance relates to non-trading deficit post-April 2017.

19 Deferred income tax *continued*

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

	Note	**Year ended 31 December 2021**	Year ended 31 December 2020
		£m	£m
Cash flow hedge reserve	24	**(6)**	2
Tax credit on actuarial movement	24	**(90)**	23
Equity investments		**1**	-
Change in tax rate	24	**(7)**	(2)
		(102)	23

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

At 31 December 2021, the aggregate amount of undistributed earnings of subsidiaries and joint ventures on which temporary differences may exist was nil (2020: nil).

A nil deferred tax liability (2020: nil) has been recognised on undistributed earnings since no tax is expected to arise on the distributions from subsidiaries in the future under the application of UK tax legislation.

The net deferred tax liability expected to reverse in 2022 is £40 million. This primarily relates to the reversal of timing differences in relation to accelerated capital allowances, fair value of financial instruments and carried forward losses.

Deferred income tax assets have been recognised in respect of all deductible temporary differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. There are no unrecognised deferred income tax assets. UK tax losses and capital losses have no expiry date. The recognition of these deferred income tax assets is supported by a combination of the reversal of taxable temporary differences and forecast future taxable income including a period of over 5 years after the balance sheet date running to 2039, which is the expected timing required for the deferred tax asset on the fair value of financial instruments to fully unwind.

In assessing the risks associated with future taxable income forecasts that have been used to support recognition, management have concluded that there is significant headroom (over 50%) above the amounts required to support recoverability of the deferred income tax assets. The reliance on future taxable profits has been made with a high level of certainty as there is considerable headroom in the Group's long-term forecasts over and above the amount forecast to be utilised to support recoverability of the deferred income tax assets.

The Group has a strong earnings history. The Covid-19 Pandemic has been very challenging for the aviation industry, but the business fundamentals remain strong. The Group benefits from countercyclicality. In times of reduced passenger traffic across the industry, airlines have tended to consolidate traffic towards hubs such as Heathrow Airport. This position as the UK's only hub airport ensures that Heathrow remains a resilient airport, maintaining the UK's critical trade and passenger connectivity. This underlying characteristic of Heathrow means that the airport is well placed to grow once passenger demand increases and travel restrictions are eased.

20 Retirement benefit obligations

The Group has applied the requirements of the standard IAS 19 'Employee Benefits (Revised 2011)' ('IAS 19R') for the year ended 31 December 2021.

LHR Airports Limited, which is an indirect subsidiary of HAH Group (the 'Group'), is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post-Retirement Medical Benefits ('PRM') scheme. Following a decision to re-assess the Group's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Group, should act as sponsor in relation to these schemes. As a result, the Group now recognises retirement benefit obligations within its financial statements.

The Group's primary UK defined benefit pension fund (the 'BAA Pension Scheme' or the 'Scheme') is now closed to new employees. As required by UK pension law, there is a Pension Trustee Board that, together with LHR Airports Limited, is

20 Retirement benefit obligations *continued*

responsible for governance of the Scheme. The employer's contributions are determined based on triennial valuations conducted on assumptions determined by the Trustee and agreed by LHR Airports Limited. The defined benefit obligation or surplus is calculated quarterly by independent actuaries.

LHR Airports Limited also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the rules of the Scheme. In addition, LHR Airports Limited provides post-retirement medical benefits to certain pensioners.

LHR Airports Limited operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group has no further payment obligations once the contributions have been paid. The total cost of defined contribution pension arrangements is fully expensed as employment costs.

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

The following tables identify the amounts in the Group's financial statements arising from its pension related liabilities. Further details of each scheme (except defined contribution schemes) are within sections a) and b).

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Employment costs:		
Defined contribution schemes	**12**	14
BAA Pension Scheme	**22**	24
Past service costs (BAA Pension Scheme)	**-**	(53)
	34	(15)
Finance (credit)/charge BAA Pension Scheme	**-**	-
Finance charge Other pension and post retirement liabilities	**-**	-
Total pension (credit)/charge	**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 (loss)/gain	**348**	(125)
Unfunded schemes	**1**	(2)
Actuarial gain/(loss) recognised before tax	**349**	(127)
Tax (charge)/credit on actuarial gain or loss	**(90)**	23
Actuarial gain/(loss) recognised after tax	**259**	(104)

There were no past service credits for the year ended 31 December 2021. For the year-ended 31 December 2020, net past service credit of £53 million includes a charge of £12 million arising from curtailment of the scheme due to the changes in the organisational structure which is part of the business transformation programme outlined in Note 3, and £65 million of gains relating to liabilities extinguished on settlements. Curtailment losses resulting from scheme leavers linked to the exceptional restructuring were calculated using market conditions as at 31 July 2020 based on this being a representative midpoint of when individuals left the scheme. Settlement gains were calculated using market rates at the dates where the settlements were enacted.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

20 Retirement benefit obligations *continued*

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

The net deficit or surplus of the LHR Airports Limited retirement benefit schemes, being the BAA Pension Scheme, Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefit Scheme, are recognised within non-current assets or non-current liabilities if the pension schemes are in a surplus or deficit position respectively. The net surplus or deficit is presented below for the current and previous four financial years.

	2021	2020	2019	2018	2017
	£m	£m	£m	£m	£m
Fair value of plan assets	**4,886**	4,796	4,302	3,869	4,085
Benefit obligation	**(4,543)**	(4,784)	(4,269)	(3,841)	(4,209)
Surplus/(deficit) in BAA Pension Scheme	**343**	12	33	28	(124)
Unfunded pension obligations	**(29)**	(30)	(28)	(28)	(29)
Post-retirement medical benefits	**(1)**	(1)	(1)	(4)	(5)
Deficit in other pension related liabilities	**(30)**	(31)	(29)	(32)	(34)
Net surplus/(deficit) in pension schemes	**313**	(19)	4	(4)	(158)
Group share of net surplus/(deficit) in pension schemes	**313**	(19)	4	(4)	(158)

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

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

(a) BAA Pension Scheme

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

Analysis of movements in plan assets and defined benefit obligations

	2021	2020
	£m	£m
Fair value of plan assets at 1 January	**4,796**	4,302
Income statement:		
Interest income on plan assets	**61**	80
Administration costs	**(3)**	(3)
Other comprehensive income:		
Re-measurement gain/(loss) (return on assets in excess of interest income on plan assets)	**188**	481
Cash flows:		
Employer contributions (including benefits paid and reimbursed)	**1**	43
Prepaid contributions	**-**	35
Members' contributions	**1**	3
Benefits paid (by fund and Group)	**(158)**	(145)
Fair value of plan assets at 31 December	**4,886**	4,796

20 Retirement benefit obligations *continued*

Defined benefit obligation at 1 January	**(4,784)**	(4,269)
Income statement:		
Current service cost	**(21)**	(23)
Past service cost	**-**	54
Interest cost	**(61)**	(80)
Other comprehensive income:		
Re-measurements of defined benefit obligation:		
Arising from changes in financial assumptions	**154**	(728)
Arising from changes in demographic assumptions	**54**	(13)
Experience gains	**(41)**	133
Cash flows:	**(1)**	
Members' contributions	**(1)**	(3)
Benefits paid (by fund and Group)	**158**	145
Defined benefit obligation at 31 December	**(4,543)**	(4,784)

In December 2020, the company prepaid £35m covering 2021 employer contributions including £20m of deficit repair contributions. The defined benefit obligation has been disclosed net of the prepayment on the statement of financial position to reflect the true closing defined benefit scheme deficit at 31 December 2020. The prepayment has fully unwound in 2021 and there have been no additional cash contributions in the year.

The net actuarial gain before tax of £355 million (2020: £127 million net loss) for the BAA Pension Scheme resulted from a decrease in obligations due to higher net discount rate of £154 million (2020: £728 million loss), offset by an increase in assets £188 million due to over performance relative to discount rates (2020: £481 million gain). In addition, there was a £54 million gain (2020: £13 million loss) attributable to updated demographic assumptions and a £41 million experience loss (2020: £133 million gain).

The actuarial gain on change in financial assumptions is mainly attributable to an increase in the net discount rate of 0.50% over the year, based on a discount rate assumption of 1.80% and an RPI inflation assumption of 3.50%. The discount rate used has increased from 1.30% in 2020 to 1.80% in 2021 and is derived from the yield on 'high quality corporate bonds' of duration consistent with liabilities of the scheme. In 2021 the Company adopted a multi-agency approach to setting the discount rate, i.e. for a bond to be treated as high quality it must have a AA (or equivalent) from at least two of the major ratings agencies. The rationale for making this change was to be more in line with typical market practice when setting the discount rate.

Analysis of fair value of plan assets

	31 December 2021			31 December 2020		
	Quoted[1]	**Unquoted**	**Total**	Quoted[1]	Unquoted	Total
Fair value of plan assets	**£m**	**£m**	**£m**	£m	£m	£m
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

20 Retirement benefit obligations *continued*
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.

Risk exposure
Through its defined benefit pension plans, the Group is exposed to a number of risks as detailed within the statement of investment principles and below:

- Funding: that the Scheme has insufficient assets to cover 100% of the accrued liabilities.
- Mismatching: arising from a difference in the sensitivity of asset and liability values to financial and demographic factors.
- Cash flows: arising from a shortfall of liquid assets relative to the Scheme's immediate liabilities.
- Investment managers: arising from a failure to meet target returns.
- Diversification: an inadequate spread of investments and sources of return.
- Covenant: the possibility of failure of the Scheme's sponsor.
- Counterparty: arising from the failure of a third party to fulfil its obligations under a financial (e.g. derivative or bulk annuity) contract entered into with the Scheme.
- Operations: fraud, poor advice or negligence.
- Leverage: an additional risk introduced if the economic exposure arising from investing in a derivative is greater than the capital committed to the investment.
- Regulatory: arises from investing in a market environment where the regulatory regime may change.
- Liquidity: the ease with which assets are marketable and realisable.

These risks are reduced by careful structuring of the Scheme's funding and investment management arrangements, and through the contracts with the investment managers. Counterparty risk is reduced by limiting the exposure to any one counterparty, together with the use of a collateral mechanism for derivative positions that is calculated daily. Operational risk is reduced as far as possible by due diligence on the appointment and review of investment managers, annuity providers and advisors, and by contracts of engagement.

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

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

The assumptions relating to longevity underlying the pension liabilities at the reporting date are in line with those adopted for the 2018 actuarial funding valuation, removing prudency, and are based on standard actuarial mortality tables with an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 26.7 years (2020: 26.8 years) and 27.8 years (2020: 27.9 years) from age 60 for a 40 year old male non-pensioner.

The expected rate of inflation is an important assumption for salary growth and pension increase. A rate of inflation is 'implied' by the difference between the yields on fixed and index-linked government bonds.

Interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

As required under IAS 19R, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*
20 Retirement benefit obligations *continued*

The funding valuation is used to judge the amount of cash contributions the Group needs to put into the pension scheme. It will always be different to the IAS 19 accounting deficit, which is an accounting rule concerning employee benefits and shown on the balance sheet of our financial statements. Note that for the valuation at 31 December 2021, the assumptions have been updated from those detailed at the September 2018 triennial valuation to allow for actual realised inflation in both 2020 and 2021. The future inflation assumptions above are applied for future periods. Mortality assumptions have been updated to the most up to date tables, using CMI 2020.

Analysis of future cash flows
UK legislation requires that pension schemes are funded prudently. In September 2019, the trustee of the BAA Pension Scheme concluded a formal actuarial valuation of the Scheme as at September 2018. The next actuarial valuation of the BAA Pension Scheme will be measured as at 30 September 2021.

The September 2018 funding valuation identified a shortfall of £123 million, and LHR Airports have agreed deficit repair contributions of £20 million per annum (previously £23 million) to eliminate the September 2018 funding valuation deficit by 2022.

The valuation also considered the cost of the benefits that will be built up over the remaining future lifetime of active members. The table below gives a breakdown of the future service cost at 30 September 2018 and the cost at 30 September 2015 for comparison. Active members pay contributions to the Scheme as a condition of membership.

Future service contributions over the future lifetime of active members whilst employed by the Group	**30 September 2018**	30 September 2015
	% of base salary including shift pay	% of base salary including shift pay
Cost of pension benefits	**26.4**	24.2
Plus Administration Expenses (including the PPF levy)	**2.6**	2.2
Minus members' contributions	**(3.4)**	(3.4)
Employer future service contribution rate	**25.6**	23.0

Sensitivity analysis of significant assumptions
The following tables present a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected, before and after tax, by changes in the relevant actuarial assumptions that were reasonably possible at the reporting date.

The standard market practice is to include sensitivity to a change of between 0.1% and 1%. Therefore 0.5% is considered to be reasonable and in line with market practice and the movements in assumptions observed in 2021.

The range of long-term inflation and long dated AA bonds over 2020 were c0.4% and 0.5% respectively, so the choice of 0.5% is deemed to be acceptable as pension sensitivities are aligned to historical trends

	(Decrease)/increase in defined benefit obligation	
	Before tax	**After tax**
	£m	**£m**
Discount rate		
+0.50% discount rate	**(708)**	**(573)**
-0.50% discount rate	**895**	**725**
Inflation rate		
+0.50% inflation rate	**681**	**552**
-0.50% inflation rate	**(544)**	**(441)**
Mortality		
Increase in life expectancy by one year	**226**	**183**

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

20 Retirement benefit obligations *continued*

The sensitivity analysis is based on a change in one assumption while holding all other assumptions constant, therefore interdependencies between assumptions are excluded, with the exception of the inflation rate sensitivity which also impacts salary and pension increase assumptions. The analysis also makes no allowance for the impact of changes in gilt and corporate bond yields on asset values. Sensitivities calculated for 2021 have been updated for the CMI 2020 model as noted above in the analysis of financial assumptions.

The total contributions by the Company to the defined benefit pension scheme in 2022 are expected to be £35 million. The levels of contributions are based on the current service costs and the expected cash flows of the defined benefit pension scheme. The Company estimates the present value of the duration of the Scheme liabilities on average fall due over 21 years (2020: 21 years).
Management believes that the scheme has no significant plan specific or concentration risks.

(b) Other pension and post-retirement liabilities

LHR Airports Limited also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the Scheme rules. The unfunded pension obligations amount to £29 million (2020: £30 million) and are included in the statement of financial position.

In addition, LHR Airports Limited provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement is £1 million (2020: £1 million) and this is also included in the statement of financial position. The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

21 Provisions

	Reorganisation costs	Home loss payments	Other	Total
	£m	£m	£m	£m
Current	13	3	-	16
Non-current	-	-	1	1
1 January 2021	13	3	1	17
Charged to income statement	-	-	-	-
Utilised	(11)	(1)	-	(12)
Released to the income statement	-	-	-	-
31 December 2021	2	2	1	5
				-
Current	2	2	-	4
Non-current	-	-	1	1
31 December 2021	2	2	1	5

Reorganisation costs

See Note 3 in relation to the exceptional restructuring programme.

Home loss payment

Between 2005 and 2011, the Company entered into a number of agreements (Property Market Support Bonds) to buy residential properties in the previous third runway blight area. The purchase price for these properties included a deferred 10% payment ("deferred payment") which was to be settled in cash when planning consent was obtained. In October 2016, the Government announced its decision in favour of expansion at Heathrow and following board approval, a public statement was issued by the Company stating its intention to apply for planning consent. Legal advice was that the Company would be required to pay the deferred payment. As a result, in the year ended 31 December 2016, Heathrow created a provision for the deferred payment equal to the amount it expects to pay of £7.5 million.

As at 31 January 2020 any unredeemed bond payments have lapsed. Heathrow does not have any further obligation to purchase properties or make any Home loss payments.

21 Provisions *continued*

Heathrow had continued to locate previous bond holders and as at year ended 31 December 2021, total amount utilised was £5.2 million paid against 171 properties resulting in a closing balance of £2.3 million. These payments were proactively paid as per the residential property agreement. In some instances, there were difficulties in tracing core dependants of the original property and securing robust documentation and hence payments had been slower than anticipated. Heathrow is no longer locating bond holders, however, carries an adequate provision for the same value.

Other

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

22 Trade and other payables

	31 December 2021 £m	31 December 2020 £m
Non-current		
Other payables	**5**	9
	5	9
Current		
Deferred income	**37**	42
Trade payables[1]	**140**	184
Other tax and social security	**7**	18
Other payables	**52**	62
Capital payables	**76**	39
Amounts owed to parent entity	**45**	44
	357	389

[1] Trade payables are non-interest bearing and are generally on 30-day terms.

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

23 Share capital

	Nominal value £m
Authorised	
At 1 January and 31 December 2021	
43,000,000,100 ordinary shares of 6.2p each	**2,666**
Called up, allotted and fully paid	
At 1 January and 31 December 2021	
42,998,461,934 ordinary shares of 6.2p each	**2,666**

24 Tax relating to components of other comprehensive income

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

	Year ended 31 December 2021			Year ended 31 December 2020		
	Before tax £m	**Tax credit/ (charge) £m**	**After tax £m**	Before tax £m	Tax (charge)/ credit £m	After tax £m
Continuing operations						
Equity investments						
Gain/(loss) taken to equity	**-**	**2**	**2**	(8)	-	(8)
Change in tax rate	**-**	**(1)**	**(1)**	-	(1)	(1)
Cash flow hedges						
Gains/(losses) taken to equity	**24**	**(6)**	**18**	(47)	4	(43)
Transferred to income statement	**51**	**(12)**	**39**	59	(6)	53
Change in tax rate	**-**	**12**	**12**	-	4	4
Actuarial gain/(loss) (loss)on pensions						
Gain/(loss) on plan assets	**188**	**(47)**	**141**	481	(92)	389
Decrease/(increase) in scheme liabilities	**167**	**(42)**	**125**	(608)	116	(492)
Change in tax rate	**-**	**(1)**	**(1)**	-	(1)	(1)
Change in tax rate relating to other opening balances	**-**	**(7)**	**(7)**	-	(1)	(1)
Other comprehensive (loss)/income	**432**	**(102)**	**328**	(123)	23	(100)

25 Commitments and contingent liabilities

Group commitments for property, plant and equipment

	2021 £m	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.

Other commitments

Heathrow Airport Limited has a commitment to pay £81.4million to the Department for Transport in relation to the Crossrail project in return for a service commitment for Crossrail to operate services to Heathrow for 15 years, with payment expected during 2022. The amount will be included as an intangible asset in the financial statements and will be added to the RAB in accordance with the Q6 regulatory settlement.

Following the Government decision in October 2016 for Heathrow as preferred option for expansion, the Company recognises that up to 66 residential property owners could exercise their right under the previous scheme for which bonds were issued, to redeem those bonds at some point in the future. The Company's best estimate of the total payment is £23 million based on a valuation in accordance with the terms set out in the bond contract and assumes all the bondholders will exercise their option to sell. Eight houses were purchased in 2021 (2020: thirteen) for a total cost of £4 million (2020: £8 million). Therefore, the number of properties where bondholders have yet to exercise the option to sell is 29 and the commitment remaining is £3 million.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

25 Commitments and contingent liabilities *continued*

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 £8 million at 31 December 2021 (2020: £7 million).

26 Note to the consolidated statement of cash flows

Reconciliation of (loss)/profit before tax to cash (used in)/generated from continuing operations

	Note	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Operating activities			
Loss before tax		**(1,767)**	(1,985)
Exceptional items	*3*	**31**	184
Loss before tax and exceptional items		**(1,736)**	(1,801)
Adjustments for:			
Net finance costs	*4*	**830**	639
Depreciation	*2*	**723**	734
Amortisation on intangibles	*2*	**39**	48
Amortisation on right of use assets	*2*	**40**	38
Fair value loss/(gain) on investment properties	*9*	**(174)**	412
Fair value loss/(gain) on financial instruments	*4*	**665**	202
Working capital changes:			
(Increase)/decrease in trade and other receivables[1]		**263**	(205)
(Increase)/decrease in inventories		**1**	(1)
Increase/(decrease) in trade and other payables		**(69)**	46
Decrease in provisions		**-**	(5)
Difference between pension charge and cash contributions		**22**	(51)
Cash generated from operations before exceptional items		**604**	56
Cash payments in respect of exceptional items		**(11)**	(125)
Cash (used in)/generated from Operations		**593**	(69)

[1] The decrease in trade and other receivables primarily relates to the unwind of prepayments made to suppliers at 31 December 2020 as described in the cash and *cash equivalents section of the accounting policies. These prepayments were made in order to manage banking covenant ratios. Judgement is required in classifying* these prepayments within the statement of cash flows. Management have concluded these should be presented within operating activities as they represent operational prepayments to suppliers (operating cash flows) as opposed to cash advances to other parties (financing activities)

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

26 Note to the consolidated statement of cash flows *continued*

Reconciliation in net debt

Net debt comprised the Group's consolidated borrowings excluding interest accruals, net of cash and cash equivalents, term deposits and lease liabilities.

	1 January 2021 £m	Cash flow £m	Transfers from non-current to current £m	Lease liabilities £m	Other non-cash changes[1,2] £m	31 December 2020 £m
Current debt	**(1,674)**	**1,543**	**(774)**	**-**	**164**	**(741)**
Non-current debt	**(17,829)**	**(474)**	**774**	**-**	**177**	**(17,352)**
Current lease liabilities	**(43)**	**32**	**(40)**	**11**	**-**	**(40)**
Non-current lease liabilities	**(349)**	**17**	**40**	**(39)**	**-**	**(331)**
Total financing liabilities excluding intercompany	**(19,895)**	**1,118**	**-**	**(28)**	**341**	**(18,464)**
Intercompany	**(897)**	**-**	**-**	**-**	**-**	**(897)**
Total financing liabilities	**(20,792)**	**1,118**	**-**	**(28)**	**341**	**(19,361)**
Cash and cash equivalents	**344**	**(93)**	**-**	**-**	**-**	**251**
Term deposits	**3,586**	**(936)**	**-**	**-**	**-**	**2,650**
Net debt	**(16,862)**	**89**	**-**	**(28)**	**341**	**(16,460)**

[1] Related to fair value adjustments on hedged bonds of £20 million, and movements on foreign exchange gain on translations of foreign debt of £156 million, accretion accruals of (£12) million and amortisation of issue costs, premiums and discounts of (£1) million.

[1] Relates to amortisation of issue costs, premium and discounts of (£30) million, foreign exchange gain on translations of foreign debt of £162 million, fair value adjustments on hedged bonds of (£129) million and accretion accruals of (£99) million, and zero-coupon accruals of (£5) million.

	1 January 2020 £m	Cash flow £m	Transfers from non-current to current £m	Lease liabilities £m	Other non-cash changes[1,2] £m	31 December 2020 £m
Current debt	(404)	406	(1,700)	-	24	(1,674)
Non-current debt	(15,568)	(3,655)	1,700	-	(306)	(17,829)
Current lease liabilities	(38)	63	-	(68)	-	(43)
Non-current lease liabilities	(346)	-	-	(3)	-	(349)
Total financing liabilities excluding intercompany	(16,356)	(3,186)	-	(71)	(282)	(19,895)
Intercompany	(155)	(742)	-	-	-	(897)
Total financing liabilities	(16,511)	(3,928)	-	(71)	(282)	(20,792)
Cash and cash equivalents	851	(507)	-	-	-	344
Term deposits	725	2,861	-	-	-	3,586
Net debt	(14,935)	(1,574)	-	(71)	(282)	(16,862)

[1] Related to fair value adjustments on hedged bonds of £3 million, and movements on foreign exchange gain on translations of foreign debt of £21 million.

[2] Relates to amortisation of issue costs, premium and discounts of (£6) million, foreign exchange gain on translations of foreign debt of (£143) million, fair value adjustments on hedged bonds of (£118) million and accretion accruals of (£39) million.

The closing value of net debt continues to include certain bonds which are reported at an amount of £52 million (2020: £201 million) higher than their GBP-equivalent cash redemption value as a result of hedge accounting under IFRS 9, together with bond issue/novation costs of £55 million (2020: £40 million). In addition, where bonds are issued in currencies other than GBP, the Group has entered into foreign currency swaps to fix the GBP cash outflows on redemption. The impact of these swaps is not reflected in gross debt and would decrease GBP equivalent by £68 million (2020: £388 million), together with the RPI swap accretion of £381 million (2020: £133 million), both of which are included in nominal net debt.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

27 Related party transactions

During the year the Group entered into the following transactions with related parties.

Related party	**Year ended 31 December 2021** **Purchase of goods and services** **£m**	Year ended 31 December 2020 Purchase of goods and services £m
Ferrovial	**2**	2
Ferrovial Agroman	**50**	28
	52	30

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

Balances outstanding with related parties were as follows:

Balances outstanding with related parties were as follows:	**31 December 2021** **Amounts owed by related parties** **£m**	**Amounts owed to related parties** **£m**	31 December 2020 Amounts owed by related parties £m	Amounts owed to related parties £m
ADI Finance 2 Limited	**97**	**897**	95	897
	97	**897**	95	897

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

Key management personnel compensation is covered within Note 2 and in more detail within the FGP Topco Group financial statements into which these accounts are consolidated.

28 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Group is ADI Finance 2 Limited, a company registered in the UK.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion; Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK, LP (11.18%) (investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company is the parent undertaking of the smallest group to consolidate these financial statements.

Copies of the financial statements of Heathrow Airport Holdings Limited and FGP Topco Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Notes to the Group financial statements for the year ended 31 December 2021 *continued*

29 Subsidiaries

The subsidiaries whose financial position affects the Group are as follows:

Direct Subsidiaries:
Heathrow Holdco Limited

Indirect subsidiaries:

9G Rail Limited[4]
Airport Hotels General Partner Limited[4]
Airport Property GP (No.1) Limited[4]
BAA (NDH2) Limited[4]
BAA General Partner Limited[4]
BAA International Limited[4]
BAA Lynton Developments Limited[4]
BAA Lynton Management Limited[4]
BAA Partnership Limited[4]
BAA Pension Trust Company Limited[4]
BAA Properties Limited[4]
BMG (Ashford) General Partner Limited
BMG (Ashford) Limited
BMG (Ashford) Partnership Trustco Limited
BMG (Bridgend) Limited
BMG (Cheshire Oaks) Limited
BMG (CO2) Limited
BMG (Swindon Phases II & III) General Partner Limited
BMG (Swindon) Limited
BMG Europe Limited[1,4]
Devon Nominees Limited[4]
Heathrow (AH) Limited
Heathrow (DSH) Limited
Heathrow (SP) Limited
Heathrow Airport Limited
Heathrow Enterprises Limited
Heathrow Express Operating Company Limited
Heathrow Finance plc
Heathrow Funding Limted[2]
LHR (Hong Kong) Limited[4]
LHR (IP Holdco) Limited[4]
LHR Airports Limited
LHR Building Central Services Limited
LHR Business Support Centre Limited
LHR Insurance Services Limited[3]
London Airports 1992 Limited
London Airports 1993 Limited[4]
London Airports Limited[4]
Non Des Topco Limited
Scottish Airports Limited[4]
The BMG (Ashford) LP[4]
The BMG (Bridgend Phases II and III) LP[4]
The BMG (CO Phase IV) LP[4]
The BMG (Swindon Phases II and III) LP[4]
Ultra Global Limited
World Duty Free Limited
Sanfield Lynton Limited[4]

[1] Incorporated in Jersey, but all profit taxed in the UK as a Controlled Foreign Company.
[2] Incorporated in Jersey, but UK tax resident.
[3] Incorporated in the Isle of Man, but all profit taxed in the UK as a Controlled Foreign Company.
[4] Dormant subsidiaries.

Unless otherwise indicated, all subsidiaries are wholly-owned, incorporated and registered in the UK. A complete list of subsidiaries will be annexed to the next annual return delivered to the Registrar of Companies.

The registered office of the Company's subsidiaries is the same as Heathrow Airport Holdings Limited, with the exception of Heathrow Funding Limited whose registered office is IFC5, St Helier, Jersey, JE1 1ST, Channel Islands.

30 Subsequent events

Bulk Purchase Annuity Policy

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

Heathrow Airport Holdings Limited

Company statement of financial position as at 31 December 2021

	Notes	**31 December 2021 £m**	31 December 2020 £m
Assets			
Non-current assets			
Investments in subsidiaries	*2*	**4,609**	4,609
Trade and other receivables	*3*	**839**	839
Deferred tax asset	*3*	**84**	65
		5,532	5,513
Current assets			
Trade and other receivables	*3*	**335**	285
		335	285
Total assets		**5,867**	5,798
Liabilities			
Non-current liabilities			
Trade and other payables	*4*	**(155)**	(155)
		(155)	(155)
Current liabilities			
Trade and other payables	*4*	**(19)**	(13)
		(19)	(13)
Total liabilities		**(174)**	(168)
Net assets		**5,693**	5,630
Capital and reserves			
Called up share capital	*5*	**2,666**	2,666
Retained earnings		**3,027**	2,964
Total shareholder's funds		**5,693**	5,630

The profit of the Company for the year as at 31 December 2021 attributable to shareholders was £63 million (2020: £149 million).

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 23 February 2022. They were signed on its behalf by:

John Holland-Kaye
Director

Javier Echave
Director

Heathrow Airport Holdings Limited

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

	Note	Share capital £m	Retained earnings £m	Total £m
1 January 2020		2,666	2,915	5,581
Total comprehensive income				
Profit for the year		-	149	149
Transactions with owners				
Dividends paid	6	-	(100)	(100)
Total transactions with owners		-	(100)	(100)
31 December 2020		**2,666**	**2,964**	**5,630**
Total comprehensive income				**-**
Profit for the year		**-**	**63**	**63**
31 December 2021		**2,666**	**3,027**	**5,693**

Accounting policies *for the year ended 31 December 2021*

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

The Company is a private holding company of a group of private companies is a limited, by shares, liability company incorporated, registered and domiciled in the UK. Its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Basis of preparation
These financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards. They have been prepared by the directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Under FRS 101, the Company applies the recognition and measurement provisions of International Accounting Standards ('IAS') 27 'Separate Financial Statements', in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The Company has taken advantage of certain disclosure exemptions in FRS 101 as its financial statements are included in the publicly available consolidated financial statements of the Group. As such, the Company is exempt from presenting the Statement of cash flows and from the disclosures requirement to show related party transactions with entities that are wholly-owned subsidiaries of the Company. In addition, the Company has also taken advantage of disclosure exemption for presenting the income statement as allowed by the Companies Act. Copies of those consolidated financial statements may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

The Company is not a financial institution and is therefore able to take advantage of exemptions from specified requirements of, IFRS 7 'Financial Instruments: Disclosures', IFRS 13 'Fair Value Measurement', IFRS 15 'Revenue from Contracts with Customers' and IAS 1 'Presentation of Financial Statements'.

Changes in accounting policy and disclosures
(a) Amended standards adopted by the Company
The following new accounting pronouncements were adopted by the Company to comply with amendments to IFRS. None of these had any significant impact on adoption:

- Revised Conceptual Framework for Financial Reporting
- Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7 – phase 2

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New accounting pronouncements, that are not yet effective and have not been adopted early by the Company, to be adopted on or after 1 January 2021

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
- Amendments to References to the Conceptual Framework
- Amendments to IAS 1 Presentation of Financial Statements on classification of liabilities as current and non-current
- Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7 – phase 2
- IFRS 17 'Insurance Contracts'
- 2018-2020 Annual Improvements Cycle

The Company's financial reporting will be presented in accordance with the new standards above, which are not expected to have a material impact on the consolidated results, financial position or cash flows of the Group, from 1 January 2021.

Accounting policies for the year ended 31 December 2021 *continued*

Going concern

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

Full detail of the considerations for the Company are included within the Going Concern policy for the Group accounts on pages 138-139 where a description of the challenges facing the wider Group and the scenarios modelled by the directors are included.

The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

Interest

Interest payable and interest receivable are recognised in the income statement in the period in which they are incurred.

Investment in subsidiaries

Investments in subsidiaries are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable. Reversals are recognised where there is a favourable change in the economic assumptions in the period since the provision was made.

Intercompany loans receivable

Intercompany advances to other Group entities are all held till maturity, neither parties have an option to call or prepay the loan before the contracted maturity date.

Such assets are held under a business model to hold and collect contractual cash flows and therefore meet the Solely Payments of Principal and Interest ('SPPI') test. No embedded derivatives are currently recognised in these advances, and the amortised cost classification is not impacted. All intercompany advances are assessed for impairment under the IFRS 9 "expected credit losses model" ('ECL').

Group relief claimed/surrendered between UK companies is paid for at the applicable tax rate of 19% (2020: 19%) for the year. Group relief receivables reflects the amounts owed to the Company by other group companies in respect of losses the Company has surrendered to them as group relief.

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists.

Amounts owed to group undertakings

Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Accounting policies *for the year ended 31 December 2021 continued*

Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is recognised in other comprehensive income.

Current tax assets and current tax liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Deferred income taxation is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements at rates expected to apply when they reverse, based on current tax rates and law. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantively enacted during the year and are expected to apply in the periods in which the related deferred tax asset or liability is reversed.

Dividend distribution

A dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the shareholder's right to receive payment of the dividend is established.

Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs, allowing for any reductions in the par value. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Significant accounting judgements and estimates for the year ended 31 December 2021

Critical judgements in applying the Company's accounting policies

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

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

Key sources of estimation uncertainty

Investment impairment review CAA passenger tariff
The investment impairment review has been completed incorporating management's judgement with regards to the outcome of the CAA passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026). The current regulatory business plan (Revised Business Plan Update 2 – "RBP Update 2") applies an average tariff, £41.95 (at 2018 prices), for the H7 period which is outside the CAA's high charge as set out in their initial proposals and further detailed at page 17. The average tariff applied reflects the CAA high charge tariff but also includes an expectation of receiving a further adjustment to the Regulatory Asset Base (RAB) of £2.5bn. Under this RBP Update 2 scenario, there would be no impairment.

Due to the uncertainty over final pricing for the H7 regulatory period and the fact that management's RBP Update 2 scenario is outside of the potential tariff range published by the CAA in its Initial Proposals, Management has performed a sensitivity analysis adopting the CAA's proposed lowest tariff with no further RAB settlement: £22.94 (at 2018 prices). The results of the sensitivity continue to support a positive headroom when comparing the carrying value of investments against the cost of investments held, and therefore no impairment has been recognised in the year.

Notes to the Company financial statements for the year ended 31 December 2021

1 Company results for the year

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £63 million (2020: £149 million).

2 Investments in subsidiaries

	£m
Cost	
1 January 2021 and 31 December 2021	**4,609**

Details of the subsidiary undertakings of the Group have been provided in Note 29 of the Heathrow Airport Holdings Limited consolidated financial statements.

The Company reviews the investments in subsidiary's carrying value for impairment if there are any indications that the carrying value may not be recoverable. The recoverable amount, fair value less costs to sell, is calculated based on discounted cash flow projections of the business using a perpetuity model where the discount rate is calculated using a WACC of 8.5%. Short term projections are based on the latest forecast approved by the Board in December 2021 and longer term projections reflect the current regulatory business plan (Revised Business Plan Update 2 – "RBP Update 2"). From the review of the position at 31 December 2021, Management concluded that there is no impairment in the investments held. However, there does remain regulatory uncertainty, as outlined on page 17, regarding the CAA passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026). A range of potential tariffs have been provided by the CAA in their "Initial Proposals" with a final tariff announced later in 2022. In order to reflect this uncertainty, Management have applied a sensitivity on the assumption that the CAA adopt the lowest tariff within this range, whilst also applying a mid-point WACC of 5.75% within the CAA's published range. The results of the sensitivity still reflect no impairment in the investments held. Due to the nature of the regulatory arrangement and the significant headroom in the valuation, climate change risks are not considered to have a material impact on the valuation of investments in subsidiaries.

3 Trade and other receivables

	31 December 2021	31 December 2020
	£m	£m
Current		
Amounts owed by group undertakings – interest free	**29**	29
Amounts owed by group undertakings – interest bearing[1,4]	**8**	8
Interest owed by group undertakings	**298**	248
	335	285
Non-current		
Amounts owed by parent undertaking – interest free[2,4]	**93**	93
Amounts owed by group undertakings – interest bearing[3,4]	**746**	746
Deferred tax asset	**84**	65
	923	904
Total receivables	**1,258**	1,189

1 Represents a loan advanced to LHR Airports Limited and attracts a rate of interest of 0.80%.
2 Amounts owed by parent undertaking represent an interest free loan to ADI Finance 2 Limited and relates to group tax relief and other inter-company charges.
3 Amounts owed by group undertakings represent a loan advanced to Heathrow Holdco Limited and attracts a fixed rate of interest of 6.65%.
4 Amounts owed by group undertakings are unsecured.

Deferred tax asset

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

Deferred income tax assets have been recognised in respect of all temporary differences giving rise to deferred income tax assets where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. Deferred income tax assets are expected to reverse in full by 2036 against future forecast non-trading income. There are no unrecognised income tax assets.

	31 December 2021	31 December 2020
	£m	£m
Surplus non trade deficit	**84**	65

4 Trade and other payables

	31 December 2021	31 December 2020
	£m	£m
Amounts falling due after more than one year		
Loan from parent undertaking – interest free[1]	**155**	155
	155	155
Amounts falling within one year		
Group relief payable	**6**	6
Amounts owed to group undertakings – interest free[1]	**13**	7
	19	13

[1]The loan from parent undertaking represents an amount lent by ADI Finance 2 Limited to the Company. These borrowings are unsecured.

5 Share capital

	Number of shares	**Nominal value £m**
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2021 and 31 December 2021	**43,000,000,100**	**2,666**
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2021 and 31 December 2021	**42,998,461,934**	**2,666**

6 Dividends

During the year ended 31 December 2021, the Company paid no dividends. During the year ended 31 December 2020, the Company paid dividends of £100 million (£0.002 per share) to ADI Finance 2 Limited on 27 February 2020.

7 Auditor's remuneration

The Company's auditor received £58,000 (2020: £35,000) as remuneration for the audit of the Company's financial statements, the cost of which was borne by Heathrow Airport Limited.

8 Employee information and directors' remuneration

Employee numbers

The Company had no employees (2020: none).

Directors' remuneration

None of the directors (2020: none) who served during the year ended 31 December 2021 received any emoluments from the Company.

During the year, none of the directors (2020: none) had retirement benefits accruing to them under a defined benefit or defined contribution pension scheme.

None of the directors (2020: none) exercised any share options during the year in respect of their services to the Company and no shares (2020: none) were received or became receivable under long term incentive plans.

Details of directors' remuneration for the year are provided in Note 2 of the Group financial statements.

9 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Company is ADI Finance 2 Limited, a company registered in the UK.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion; Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK, LP (11.18%) (investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company is the parent undertaking of the smallest group to consolidate these financial statements.

Copies of the financial statements of Heathrow Airport Holdings Limited and FGP Topco Limited may be obtained by writing to the Company Secretarial Department at their registered address, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

10 Securities and guarantees

The Company, Heathrow Airport Limited, Heathrow Express Operating Company Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. The total value secured is £18,318 million, equal to the gross value of Heathrow Airport Holdings Group debt.

11 Subsequent events

There are no subsequent events to disclose.

Registered office

Heathrow Airport Holdings Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW

Registered in England Number: 05757208

Heathrow Airport Holdings Limited

Alternative Performance Measures (APMs) – Unaudited

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

EBITDA

EBITDA is (loss)/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.

	2021	2020
	£m	£m
(Loss)/profit for the year	**(1,572)**	(1,755)
Add: Tax (credit)/charge	**(195)**	(230)
Add: Net finance cost	**1,495**	841
Operating (loss)/profit	**(272)**	(1,144)
Add: depreciation and amortisation	**802**	820
EBITDA	**530**	(324)

Adjusted EBITDA

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

	2021	2020
	£m	£m
(Loss)/profit for the year	**(1,572)**	(1,755)
Less: Tax credit	**(195)**	(230)
Add: Net finance cost	**1,495**	841
Operating (loss)/profit	**(272)**	(1,144)
Add: depreciation and amortisation	**802**	820
Add: exceptional items	**31**	184
Add: fair value loss/(gain) on investment properties	**(174)**	412
Adjusted EBITDA	**387**	272

	2020	2020
	£m	£m
Cash generated from/(used in) operations	**593**	(69)
Exclude:		
(Decrease)/increase in trade and other receivables	**(263)**	205
(Decrease)/increase in inventories	**(1)**	1
Decrease/(increase) in trade other payables	**69**	(46)
Decrease in provisions	**-**	5
Difference between pension charge and cash contributions	**(22)**	51
Cash payments in respect of exceptional items	**11**	125
Adjusted EBITDA	**387**	272

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 underlying performance of the trading business.

Alternative Performance Measures (APMs) – Unaudited *continued*

	2021 £m	2020 £m
Operating (loss)/profit[1]	**(272)**	(1,144)
Add: exceptional items	**31**	184
Add: fair value loss/(gain) on investment properties	**(174)**	412
Adjusted operating (loss)/profit	**(415)**	(548)

* Operating profit is presented on the Group Income statement, it is not defined per IFRS, however it is a generally accepted profit measure.

Net finance costs before certain re-measurements

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

	2021 £m	2020 £m
Finance income	**8**	14
Finance cost	**(1,503)**	(855)
Net finance cost including certain remeasurements	**(1,495)**	(841)
Add: fair value loss/(gain) arising on re-measurement of financial instruments	**665**	202
Net Finance cost before certain re-measurements	**(830)**	(639)

Adjusted loss before tax

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

	2021 £m	2020 £m
Loss before tax	**(1,767)**	(1,985)
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	**(1,245)**	(1,187)

Adjusted loss after tax

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

	2021 £m	2020 £m
Loss after tax	**(1,572)**	(1,755)
Add: exceptional items	**31**	184
Add: fair value loss/(gain) on investment properties	**(174)**	412
Add: fair value loss/(gain) arising on re-measurement of financial instruments	**665**	202
Less: tax credit on fair value loss on investment properties and re-measurement of financial instruments	**(139)**	(110)
Less: tax credit exceptional items	**-**	(18)
Add: change in tax rate	**196**	106
Adjusted loss after tax	**(993)**	(979)

Heathrow Airport Holdings Limited

Alternative Performance Measures (APMs) – Unaudited *continued*

HAHL consolidated nominal net debt

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

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

	2021 £m	2020 £m
Net debt (Note 26)	**(16,460)**	(16,862)
Index-linked swap accretion[1]	**(381)**	(133)
Impact of cross currency interest rate swaps[2]	**121**	589
Bond issuance costs[3]	**51**	39
Less: IFRS 16 lease liability at 31 December 2020 relating to pre-existing leases[4]	**351**	389
Less: Intercompany	**897**	897
Consolidated nominal net debt	**(15,421)**	(15,081)

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

Regulatory Asset Base ('RAB')

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

	2021 £m	2020 £m
Regulatory Asset Base ('RAB')	**17,474**	16,492

Regulatory gearing ratio

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

Gearing ratios	**2021**	2020
Total net debt to RAB at Heathrow Finance plc	**0.884**	0.917
Total net debt to RAB at Heathrow (SP) Limited	**0.763**	0.796
Senior net debt to RAB at Heathrow (SP) Limited	**0.646**	0.684