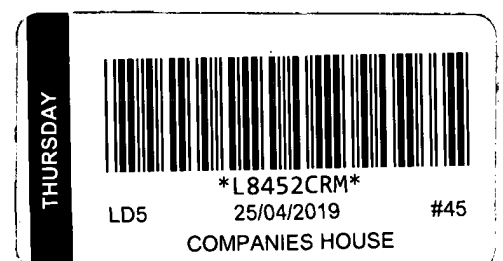


Heathrow (AH) Limited
Annual report and financial statements
for the year ended 31 December 2018

Company registration number: 06458657



Heathrow (AH) Limited

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Heathrow (AH) Limited

Officers and professional advisers

Directors

Yuanyuan Ding
Javier Echave
Nicholas Golding

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Independent auditor

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Bankers

Lloyds Bank plc
1st Floor
10 Gresham Street
London
EC2V 7AE

Heathrow (AH) Limited

Strategic report

The directors of Heathrow (AH) Limited present their strategic report for the year ended 31 December 2018.

Principal activities

The principal activities of the Company is to act as the immediate holding company of Heathrow Airport Limited, which is responsible for operating Heathrow airport ('Heathrow'), operator of the Heathrow Express rail service and owner of Heathrow Funding Limited, the bond issuer of the Group.

The Company is a direct subsidiary of Heathrow (SP) Limited and together with the other subsidiaries of Heathrow (SP) Limited forms the group (the 'SP Group') which is able to raise investment grade finance and further forms part of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group').

Business review

The Company continues to hold investments. There have been no changes in the Company's principal activity during the year.

Results and dividends are discussed in the Directors' report page 8.

Internal controls and risk management

Internal controls and risk management are key elements of the Group's corporate operations. Risk is centrally managed within the Group ('SP Group') as part of Corporate Services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team. The Corporate risk management function, sets the strategy for risk management to provide the necessary framework to ensure that key risks are managed and embeds a sustainable risk management culture that views the execution of risk management processes and practices across Heathrow as a key enabler to Heathrow achieving its business objectives.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Group and for reviewing the effectiveness of the system. This is implemented by applying the Group internal control procedures, supported by a Code of Professional Conduct Policy, appropriate segregation of duties controls, organisational design and documented procedures. These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

The key features of the Group's internal control and risk management systems in relation to the financial reporting process include:

- a group-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- Audit Committee review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items;
 - compliance with accounting, legal, regulatory and lending requirements
 - critical accounting policies and the going concern assumption
 - significant areas of judgement and estimates;
 - key financial statement risk areas as reported further below in the report;
- independent review of controls by the Internal Audit function, reporting to the AC; and
- a confidential whistleblowing process.

Risk management

Our aim is to gain a deep understanding of the principal risks we face at all levels of the business and to focus management attention on effective mitigation of these risks as well as a review of over-the-horizon emerging risks which may impact the business and strategy of Heathrow.

Heathrow (AH) Limited

Strategic report *continued*

Risk management *continued*

We continue to roll out a risk improvement plan which is focussed on improving accountability for end-to-end risk management at all levels and drive improvements in our risk culture. The risk improvement plan covers all the key elements of an effective risk management framework including risk leadership, informed risk decision making, competency and risk skills, governance including timeliness and transparency of risk information and clarity of accountability for managing risks. We assess and monitor our risk maturity across all key areas and drive improvements where required.

Our principal risks are aligned to our 4 strategic priorities as follows:

- to be a great place to work, we will help our people fulfil their potential and work together to lead change across Heathrow with energy and pride;
- to give passengers the best airport service in the world we'll work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience;
- to secure future investment we will beat the Q6 business plan and deliver a competitive return to our shareholders by growing our revenue, reducing costs and delivering investments more efficiently; and
- to grow and operate our airport sustainably, now and in the future.

The principal risks identified by the Executive Committee are:

Business resilience

Business resilience risks can relate to Heathrow's assets, infrastructure, human or electronic processes or systems, the failure of which, by accident or deliberate act, could result in prolonged periods of interruption to critical services/operations and passenger experience. There are a number of circumstances that can pose short-term risks to the normal operations at the airport such as shocks to the macroeconomic environment, terrorism, wars, airline bankruptcies, human health scares, weather conditions and natural disasters whose cause may be remote from Heathrow's location. These conditions can have a particularly significant impact where, due to operating close to full capacity, there is negligible spare capacity to utilise in recovering from some of the above conditions.

Where possible the Group seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption and passenger inconvenience working as necessary with those parties who have direct contractual responsibility. Through a series of programmes the Group seeks to keep a competent, flexible and motivated workforce that can respond to a changing business and operating environment. By driving engagement in its people the Group will achieve its goals and give excellent passenger service, avoid safety and security incidents, protect resilience and deliver successful change.

People

Heathrow employs around 6,700 colleagues and, in a complex business such as Heathrow's, there are risks associated with recruiting, screening, motivating, developing and training employees on a large scale, as well as rewarding appropriately and retaining critical talent and ensuring succession plans are in place.

Heathrow has a transparent recruitment process and is committed to recruiting diverse talented individuals from all sectors of the community. Heathrow has committed to reflecting local diversity at all levels in the company by 2025. At all stages of the recruitment and selection process, interviewing and selection will always be carried out without regard to gender, sexual orientation, disability, marital status, colour, race, ethnic origins, religion or religious belief or age. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty which is intrinsic to the role, having taken into account any reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure an applicant is not disadvantaged due to his/her disability. All successful external candidates are subject to a criminal records check and the appropriate security clearance as required by the role.

Heathrow has strategies and policies in place to engage and motivate its colleagues so they are excited and challenged by their work environment, accountable and compliant with internal governance, policies and procedures. Heathrow provides great career opportunities, development and training, retaining talent and knowledge and preventing single points of failure.

Anti-corruption and anti-bribery matters

Heathrow takes a zero-tolerance approach to bribery and corruption and is committed to conducting its business in an honest and ethical manner, in compliance with the Bribery Act 2010 (the "Bribery Act") and applicable anti-bribery and anti-corruption laws. Breach of anti-bribery provisions by Heathrow employees, paid or voluntary agents, consultants or suppliers could result in Heathrow breaching the Bribery Act by failing to prevent an act of bribery being committed. If Heathrow is found guilty of such an offence, Heathrow could face an unlimited fine, exclusion from tendering for public companies, as well as significant reputational damage. As such, Heathrow embeds and maintains robust Anti-Bribery, Gifts & Hospitality Policy and Guidance (the "Anti-Bribery Policy") and other effective systems and controls to prevent bribery and corruption at Heathrow. All employees and third parties associated with Heathrow are required to conduct themselves according to the standards set out in the Anti-Bribery Policy. Any breach of the Anti-Bribery Policy will result in disciplinary action, and, if appropriate, in instant dismissal and referral to the relevant law enforcement authorities. In addition, our Whistleblowing Policy encourages individuals to report any wrong-doing which extends to bribery and corruption matters. All whistleblowing reports are treated in the strictest confidence and are investigated fully with appropriate actions taken.

Heathrow (AH) Limited

Strategic report continued

Risk management continued

Corporate social responsibility

Heathrow understands the importance to its business of the communities in which it operates, and through consultation and engagement seeks to ensure that their concerns are taken into account in the operation and planning of Heathrow. It may restrict opportunities to grow and threaten Heathrow's social licence to operate if local communities do not believe the airport is managed responsibly or that its economic benefits are optimised without prioritising profits over the long-term interests of local communities.

Environmental risk has the potential to impact negatively upon Heathrow's reputation and jeopardise its licence to operate and to grow.

The Group undertakes procurement responsibly and encourages trade and employment opportunities for local communities. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established.

Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. The Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Stakeholders

Poor interactions and relationships with key stakeholders including partners, suppliers and airlines could negatively impact passenger experience, airport operations, financial performance and Heathrow's reputation.

Heathrow aims to manage its contracts effectively and share with airport partners the information it may hold about their service providers. This is underpinned by robust and responsible procurement practices which consider the resilience and sustainability of suppliers before contracts are commenced with them, as well as frequent monitoring of their operational performance once they commence business with the airport.

Legal, regulation and compliance

Operations at Heathrow airport are currently subject to economic regulatory review by the CAA normally every five years. Its principal risks relate to changes in economic regulations, non-compliance with these and other regulations, licence conditions, financing covenants, contractual requirements and penalties for failing to comply with competition and relevant EU law. Failure to comply with laws and regulations can have far reaching consequences, including loss of licence, penalties, claims and litigation, reputational damage and loss of stakeholder confidence.

The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated project team which ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of Heathrow breaching laws, regulations and contractual requirements.

Health and safety

Heathrow has a statutory and moral responsibility to ensure that it safeguards the welfare and safety of its people, business partners and the public who may be affected by its activities. Heathrow recognises that a failure to exercise this responsibility effectively also risks operational disruption, inconvenience to passengers and long-term damage to its reputation.

Heathrow's Safety Management System includes risk assessment processes for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the airport's business. Heathrow also operates robust asset management processes to ensure property and equipment remains safe. Governance, led by the airport's senior management teams, and assurance processes are used to ensure that controls around health and safety risks remain effective and continuous improvement is encouraged.

Security

Heathrow is responsible for ensuring that its assets, infrastructure, human and electronic systems and processes meet the minimum statutory requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers. It also needs to ensure that its assets, infrastructure, human and electronic systems are protected from theft, damage or intrusion.

Security risks, including cyber security, terrorism risks, and information security are mitigated by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading edge security technology. Heathrow works closely with airlines and government agencies including the police building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

Heathrow (AH) Limited

Strategic report *continued*

Risk management *continued*

Strategic direction and management of change

Heathrow airport is operating its runways at close to full capacity and failure to secure the necessary Development Consent Order, following a robust consultation process, for the third runway, for which Heathrow is the preferred choice of the UK Government, could lead to increased congestion, passenger delay and lack of opportunity for the UK.

Monitoring developments in the global aviation market and the levels of passenger satisfaction with different airports around the world provides input to the on-going relevance of the Group's strategy. The Group also needs to influence the pace and direction of changes to regulations, legislation, government policy, aviation and the wider economy and ensure that it does not lose airlines' support for expansion.

Heathrow recognises that failure to control key development costs and delivery could damage its financial standing and reputation. There are risks that projects fail to deliver to the agreed quality, specification, time and budget as well as risks that the benefits of change are not realised, return on investments not realised and transformation not delivered.

The planning process for all major national infrastructure projects in the UK sets out a number of steps that the Group needs to go through to obtain development consent to expand Heathrow: a National Policy Statement, a Development Consent Order and public consultation before a final decision is taken by the UK Government for the third runway. The Group's planning process is well underway and it is building an organisation and expertise to ensure this process runs smoothly. Heathrow will undertake extensive consultations with community groups and authorities at a local level and is an active participant in government consultations and other advisory groups.

The risk of unanticipated long-term changes in passenger demand for air travel could lead to a shortfall in revenue and misaligned operational capacity within Heathrow. Since it is not possible to identify the timing or period of such an effect, the Group carries out evaluations through a series of scenario planning exercises. Risks associated with the uncertainties arising from the current Brexit negotiations are monitored and managed as far as possible including putting in place contingency plans.

The regulatory framework requires formal engagement with airline customers. Helping manage the risk of adverse airline relations, all airlines are invited to be represented on engagement fora – e.g. joint steering groups. When feedback is sought or processes are measured, robust steps have been put in place to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood.

Heathrow mitigates project risks through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction. The process is continually improved incorporating lessons learnt and "best practice" distilled from knowledge sharing with other client programmes, expertise within its supply chain and guidance from professional bodies.

Brexit

We continue to monitor progress made by the UK Parliament as it debates how to progress towards Brexit. While the continued delays in reaching an agreement increase uncertainty for UK businesses, the aviation industry remains well positioned as a result of the EU aviation contingency plans.

Heathrow has established a cross-functional Brexit team, reporting to the Executive committee and Board, which has implemented a structured approach to the identification and management of all risks related to Brexit. Heathrow has focused on the management of risks associated with the outcome of the Withdrawal Agreement negotiations and government votes.

Identified risks specific to Heathrow include impacts on Airline operations, disruption to our passengers and immigration, cargo operations, our supply chain, and our people. We have made preparations to ensure the continued safe and secure operation for passengers with a plan jointly created with stakeholders to deliver a predictable and appropriate passenger experience and which minimizes the pre- and post-Brexit impacts. Specific activities include:

- close collaboration in contingency planning across the aviation sector, agencies and Government,
- advancing proposals for automating immigration process for specific nations,
- funding settled status for our non-UK EU national workers,
- commitment to the prompt payment code for our supply chain,
- advanced procurement of key operational stores,
- continued commitment and assurance on major capital programmes to our supply chain,
- contingency fallback plans for our key suppliers, and
- reviewed operational contingency and readiness plans

In parallel, the UK Government is continuing work to implement replacement Air Service Agreements (ASAs) for the 17 countries which are currently covered by the UK's membership of the EU. If the outcome of the negotiations is a 'no deal' exit without a withdrawal agreement then, subject to a reciprocal offer by the UK, UK airlines will be able to continue to fly between the EU and UK. In addition, UK citizens will be permitted to travel visa free in the EU for up to 90 days and the

Heathrow (AH) Limited

Strategic report *continued*

Risk management *continued*

Brexit *continued*

EU will continue to recognise the UK for 'EU One Stop Aviation Security Regime'.

Whilst these contingency arrangements are only intended to be in place until the end of 2019, if enacted, we anticipate that there will be very little, if any, impact on flights in the event that MPs vote against the Withdrawal Agreement. The Government has already indicated that a number of these ASA's, including the agreement with the US, have been agreed and the remaining agreements will be put in place well in advance of the termination of the EU contingency plans or the UK leaving the EU. These new ASA's, combined with the existing 111 bilateral agreements with international destinations, will ensure that the vast majority of traffic at Heathrow is unaffected by the outcome of the negotiations on the transition agreement.

In the more extreme scenario, a portion of Heathrow traffic (flying between UK and EU) may stop flying for a short period of time and there may be capacity reductions for an extended period. We have conducted stress testing in this scenario, including impacts on costs and revenue, and financing our capital investment program and this showed we have significant resilience to this outcome. This analysis has been presented to the Board.

Financial stability

The Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies, the approval of funding and the implementation of funding and risk strategy to the Heathrow Finance Committee. Senior management directly control day-to-day treasury operations on a centralised basis.

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Group's business operations and funding. To achieve this, the Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

The primary treasury-related financial risks faced by the SP Group are:

- (a) **Interest rates**
The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2018, fixed rate debt after hedging with derivatives represented 92.3% of the SP Group's total external nominal debt.
- (b) **Inflation**
The SP Group mitigates the risk of mismatch between Heathrow's aeronautical income and regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments, by the issuance of index-linked instruments.
- (c) **Foreign currency**
The SP Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The SP Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.
- (d) **Funding and liquidity**
The SP Group has established both investment grade (at the Heathrow (SP) level) and sub-investment grade (at the Heathrow Finance level) financing platforms for Heathrow. The Heathrow (SP) platform supports term loans, various revolving loan facilities including revolving credit facilities, working capital facilities and liquidity facilities, and Sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Audit Committee, the Board and Executive Committee.

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.

Heathrow (SP) has positive cash flows after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2019. As at 31 December 2018, the SP Group had cash and cash equivalents and term deposits of £711 million, undrawn headroom under revolving credit facilities of £1,150 million, committed debt financing to be drawn after 31 December 2018 of £581 million and undrawn headroom under liquidity facilities of £595 million.

Heathrow (AH) Limited

Strategic report *continued*

Risk management *continued*

Financial stability *continued*

(e) Counterparty credit

The SP 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.

The SP Group maintains a prudent split of cash and cash equivalents 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 generally no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2 (S&P)/F1 (Fitch). The SP Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+ (S&P)/BBB+ (Fitch).

This report was approved by the board and signed on its behalf



Nicholas Golding
Director

28 March 2019

Heathrow (AH) Limited

Directors' report

The Directors present their annual report and the audited financial statements for Heathrow (AH) Limited (the 'Company') for the year ended 31 December 2018.

A review of the progress of the Company's business during the year, internal controls and risk management, principal business risks and likely future developments are contained in the Strategic report on pages 2 to 7.

Results and dividends

The profit after taxation for the financial year amounted to £484 million (2017: £278 million).

During the year ended 31 December 2018, the Company paid dividends of £484 million (£0.07 per share) to Heathrow (SP) Limited comprising £112 million (£0.02 per share) on 21 February 2018, £99 million (£0.01 per share) on 26 June 2018, £114 million (£0.02 per share) on 23 July 2018 and £159 million (£0.02 per share) on 20 December 2018. (2017: £278 million (£0.04 per share) to Heathrow (SP) Limited, comprising £85 million (£0.01 per share) on 23 February 2017 and £193 million (£0.03 per share) on 20 December 2017).

Dividends of £484 million were received during the year (2017: £277 million). The statutory results for the year are set out on page 13.

Directors

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

Javier Echave	
Andrew Efiog	Resigned on 23 March 2018
Nicholas Golding	
Yuanyuan Ding	Appointed on 23 March 2018

Going concern

These financial statements have been prepared on the going concern basis, which requires the Directors to have reasonable expectation that the Company, as part of the Heathrow SP Limited Group, has adequate resources to continue in operational existence for the foreseeable future. The going concern accounting policy on page 15 provides more detail.

Company secretary

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

Employment policies

The Company has no employees (2017: none).

Internal controls and risk management

The SP Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the SP Group's internal controls and risk management policies can be found on pages 2 to 7 in the internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies

The SP Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on pages 2 to 7 in the Internal controls and risk management section of the Strategic report.

Subsequent event

On 20 February 2019, the Board approved the payment of a £100 million dividend to the shareholder.

On 1 March 2019, the board approved the payment of a £1.8 million dividend to the Company's parent, Heathrow (SP) Limited. This was financed by the receipt of a dividend payment from the Company's subsidiary Heathrow Airport Limited for £1.8 million. This is for the purposes of ADI Finance 2 Limited paying interest of £1.6 million on its external debt facilities on 1 March 2019.

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 him in defending any proceedings in which judgement is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

Heathrow (AH) Limited

Directors' report *continued*

Auditor

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor Deloitte LLP will be proposed within the period set out in section 485 or Deloitte LLP will be deemed re-appointed where no such resolution is proposed following the period set out in section 485 in accordance with section 487.

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 he ought to have taken as a director in order to make himself 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.

Under s414C(11), information required by s416(4) to be included in the Directors' report has been presented in the Strategic report and forms part of the Director' report by cross reference, specifically in relation to financial risk management.

Approved by the board and signed on its behalf by

A handwritten signature in black ink, appearing to read 'N. Golding', with a stylized flourish at the end.

Nicholas Golding
Director

28 March 2019

Company registration number 06458657

Heathrow (AH) Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Heathrow (AH) Limited

Independent auditor's report to the members of Heathrow (AH) Limited for the year ended 31 December 2018

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Heathrow (AH) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- accounting policies;
- significant accounting judgements and estimates; and
- the related notes 1 to 11.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

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

Heathrow (AH) Limited

Independent auditor's report to the members of Heathrow (AH) Limited for the year ended 31 December 2018 *continued*

Responsibilities of directors *continued*

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

Auditor's 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 auditor's 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.

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 auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Simon Cleaveland FCA (Senior Statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

 March 2019

Heathrow (AH) Limited

Statement of comprehensive income for the year ended 31 December 2018

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£m	£m
Dividends received from subsidiary	2	483	277
Net interest receivable and similar income	3	1	1
Profit before tax		484	278
Taxation	4	-	-
Profit for the year	8	484	278

Heathrow (AH) Limited

Statement of financial position as at 31 December 2018

	Note	31 December 2018 £m	31 December 2017 £m
Fixed Assets			
Investment in subsidiary	5	8,154	8,154
		8,154	8,154
Current assets			
Cash at bank		2	2
		2	2
Net assets		8,156	8,156
Capital and reserves			
Called up share capital	7	11	11
Share premium reserve	8	849	849
Revaluation reserve	8	2,220	2,220
Retained earnings	8	5,076	5,076
Total shareholder's funds		8,156	8,156

The financial statements of Heathrow (AH) Limited (Company registration number: 06458657) were approved by the Board of Directors and authorised for issue on 28 March 2019. They were signed on its behalf by:



Javier Echave
Director



Nicholas Golding
Director

Heathrow (AH) Limited

Statement of changes in equity for the year ended 31 December 2018

	Note	Share capital £m	Share premium reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
1 January 2017		11	499	2,220	5,076	7,806
Profit for the financial year		-	-	-	278	278
Total comprehensive income		-	-	-	278	278
Transactions with owners						
Issue of ordinary shares		-	350	-	-	350
Dividends paid	6	-	-	-	(278)	(278)
Total transactions with owners		-	350	-	(278)	72
31 December 2017		11	849	2,220	5,076	8,156
Profit for the financial year		-	-	-	484	484
Total comprehensive income		-	-	-	484	484
Transactions with owners						
Dividends paid	6	-	-	-	(484)	(484)
Total transactions with owners		-	-	-	(484)	(484)
31 December 2018		11	849	2,220	5,076	8,156

Heathrow (AH) Limited

Accounting policies for the year ended 31 December 2018

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

The Company

The Company is a private company, limited by shares, incorporated in United Kingdom under Companies Act 2006, registered in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Basis of accounting

These financial statements have been prepared and approved by the directors in compliance with Financial Reporting Standard ('FRS') 101 'Reduced Disclosure Framework' under the historical cost convention.

Under FRS 101, the Company has chosen to apply the recognition and measurement provisions of International Accounting Standard ('IAS') 27 'Separate Financial Statements', as endorsed by the European Union ('EU').

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 FGP Topco Limited. The following disclosure exemptions have been taken:

- the statement of cash flows;
- related party transactions,
- capital management and;
- amendments to IFRSs that are not yet mandatorily effect.

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 exemption from all requirements of IFRS 7 'Financial Instruments: Disclosures' and from the disclosure requirements of IFRS 13 'Fair Value Measurement'.

These financial statements present information about the Company as an individual entity only and not as a group.

These financial statements are presented in Sterling, which is the Company's functional currency, and are rounded to the nearest thousand pounds (£'000), except where noted.

Amendments to IFRSs and the new Interpretation that are now mandatorily effective

- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts with customers

Their adoption has not had any material impact on the disclosures or in the amounts reported in these financial statements.

Going concern

The directors have prepared the financial statements on the going concern basis which requires the directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the Heathrow (SP) Limited group (the 'SP Group'), the level at which financial risks are managed for the Company.

Consequently, the directors have reviewed the cash flow projections of the SP Group taking into account:

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

As a result of the review, having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the twelve months from the statement of financial position signing date.

Individual entity financial statements

The Company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of FGP Topco Limited and it, and its subsidiary undertakings, are included in the consolidated financial statements of that company for the year ended 31 December 2018. The financial statements present information about the Company as an individual entity only and not as a group.

Heathrow (AH) Limited

Accounting policies for the year ended 31 December 2018 *continued*

Interest

Interest payable and interest receivable are recognised in the profit and loss account in the period in which they are incurred.

Investment in subsidiary

Investment in subsidiaries held as fixed assets are stated at deemed cost and are measured at fair value with the gain being recognised in the revaluation reserve. Any further costs of investment since that date are recorded at cost. Investments in subsidiaries are reviewed for impairment if there are any indications that the carrying value may not be recoverable. Reversals of impairment charges are recognised where there is a favourable change in the economic assumptions in the period since the provision was made.

Dividends receivable

A dividend is recognised as an asset in the Company's financial statements in the period in which the Company's right to receive payment of the dividend is established.

Trade receivables

Debtors are recognised initially at cost less any provision for impairment.

Cash

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

Trade payables

Creditors are recognised at cost.

Current income taxation

The tax expense for the year comprises current tax only and is recognised in the statement of total comprehensive income.

Current tax liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and 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.

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. Interim dividends are recognised when paid.

Share capital

Ordinary shares are classified as equity and are recorded at the fair 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.

Heathrow (AH) Limited

Significant accounting judgements and estimates for the year ended 31 December 2018

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

Critical judgements in applying the Company's accounting policies

There are no critical judgments for the Company.

Key sources of estimation uncertainty

Investment impairment review

Where there are indicators of impairment of individual assets, the Company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for a period in which the cash flows can be reliably estimated (for example the end of a concession agreement) and do not include restructuring activities that the Company is not yet permitted to include or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Heathrow (AH) Limited

Notes to the financial statements for the year ended 31 December 2018

1 Operating costs

Auditor's remuneration

Audit fees are recharged in accordance with the Heathrow Airport Holdings Group's Shared Services Agreement ('SSA') into the operating entities. Heathrow (AH) Limited is not an operating entity and is therefore not party to the SSA and receives no recharge of the audit cost. However, the Company's auditor received £3,000 (2017: £4,000) as remuneration for the audit of the Company's financial statements, the cost of which is borne by Heathrow Airport Limited.

Employee information

The Company has no employees (2017: none).

Directors' remuneration

Javier Echave was a director of a number of companies within the Heathrow Airport Holdings Group during the year. His remuneration for the year ended 31 December 2017 was disclosed in the financial statements of Heathrow Airport Holdings Limited. Andrew Eftong, Nicholas Golding and Yuanyuan Ding were directors of a number of companies within the Heathrow Airport Holdings Group. They were paid by, but are not directors of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies within the Group based on services provided.

During the year, three of the directors (2017: one) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2017: three) had retirement benefits accruing to them under a defined contribution scheme.

One of the directors (2017: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2017: none) were received or became receivable under long term incentive plans.

2 Dividends received from subsidiary

During the year, £483 million of dividends were received from the Company's subsidiary, Heathrow Airport Limited (2017: £277 million).

The dividends received during the year are treated as non-taxable income for corporation tax purposes.

3 Net interest receivable and similar income

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Interest receivable		
Interest on deposits	-	1
Dividend receivable ¹	1	1
	1	2
Interest payable		
Interest to group companies	-	(1)
Net interest receivables and similar income	1	1

¹ Dividend receivable on irredeemable preference shares of £0.01 each from Heathrow Airport Limited: 4.30p per share (2017: 4.32p per share). Dividend based on one year sterling LIBOR plus a dividend rate premium of 3.25%.

4 Taxation

Reconciliation of tax expense

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 19% (2017: 19.25%). The actual tax expense for the current year and prior period differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before tax	484	278
Tax calculated at the UK statutory rate of 19% (2017: 19.25%)	(92)	(54)
Effect of:		
Income not assessable for tax purposes	92	54
Tax expense on profit before tax	-	-

Heathrow (AH) Limited

Notes to the financial statements for the year ended 31 December 2018 *continued*

4 Taxation *continued*

The total tax (charge)/credit recognised for the year ended 31 December 2018 was Nil (2017: Nil). Based on a profit before tax for the year of £484 million (2017: £278 million), this results in an effective tax rate of Nil (2017: Nil).

The headline UK corporation tax rate was 20% up until 1 April 2017, when it reduced to 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of these rate reductions has been reflected in the deferred tax balances in the financial statements.

In November 2017 the Finance (No.2) Act 2017 received Royal Assent, giving effect to a new interest deductibility regime. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). As a result of the new legislation, from 1 April 2017, interest deductions are limited to 30% of tax-based EBITDA, with the ability to apply a group ratio rule (GRR) and a public infrastructure exemption (PIE). Heathrow is to a large extent protected from the 30% of tax-based EBITDA cap therefore no material interest disallowance has been reflected in the 2018 tax charge (2017: £nil).

In the November 2018 Budget the Government announced a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property will be available where the construction contract is entered on or after 29 October 2018. Relief will be provided on eligible construction costs at an annual rate of 2% on a straight-line basis, effectively giving tax relief over a 50-year period. Heathrow is likely to benefit from tax relief in future years on expenditure which would not be eligible under current rules.

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

5 Investment in subsidiary

	£m
Cost or valuation and net book value	
1 January and at 31 December 2018	8,154

The Company's subsidiaries as at 31 December 2018 are as follows:

Subsidiary	Nature of Business	% of share capital held	Class of share
Heathrow Airport Limited	Airport operator	100	Ordinary shares of £1 each

Heathrow Airport Limited, a company registered in England and Wales, operates Heathrow airport. The registered address of the company is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

The Company's indirect subsidiary is as follows:

Subsidiary	Nature of Business	% of share capital held	Class of share
Heathrow Express Operating Company Limited	Railway operator	100	Ordinary shares of £1 each

Heathrow Express Operating Company Limited, a company registered in England and Wales, operates the express rail service between Heathrow and central London. The registered address of the company is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

The Company owns all of the £0.01 irredeemable preference shares issued by Heathrow Airport Limited. These shares carry an entitlement to an annual dividend uplifted by reference to the RPI.

6 Dividends

During the year ended 31 December 2018, the Company paid dividends of £484 million (£0.07 per share) to Heathrow (SP) Limited comprising £112 million (£0.02 per share) on 21 February 2018, £99 million (£0.01 per share) on 26 June 2018, £114 million (£0.02 per share) on 23 July 2018 and £159 million (£0.02 per share) on 20 December 2018. (2017: £278 million (£0.04 per share) to Heathrow (SP) Limited, comprising £85 million (£0.01 per share) on 23 February 2017 and £193 million (£0.03 per share) on 20 December 2017).

Heathrow (AH) Limited

Notes to the financial statements for the year ended 31 December 2018 *continued*

7 Share capital

	£m
Called up, allotted and fully paid	
In issue at 1 January and 31 December 2018:	
7,373,555,178 ordinary shares of £0.0015 each	11

8 Reserves

	Share Capital £m	Share premium reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
1 January 2018	11	849	2,220	5,076	8,156
Profit for the financial year	-	-	-	484	484
Dividends paid	-	-	-	(484)	(484)
31 December 2018	11	849	2,220	5,076	8,156

9 Securities and guarantees

The Company, together with Heathrow Airport Limited, Heathrow Express Operating Company Limited and Heathrow (SP) 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.

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

10 Ultimate parent undertaking

The immediate parent undertaking is Heathrow (SP) Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are 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 L.P. (11.18%) (an investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2018, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2018.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. This is the registered office for the smallest and largest undertaking to consolidate these financial statements.

11 Post balance events

On 20 February 2019, the Board approved the payment of a £100 million dividend to the shareholder.

On 1 March 2019, the board approved the payment of a £1.8 million dividend to the Company's parent, Heathrow (SP) Limited. This was financed by the receipt of a dividend payment from the Company's subsidiary Heathrow Airport Limited for £1.8 million. This is for the purposes of ADI Finance 2 Limited paying interest of £1.6 million on its external debt facilities on 1 March 2019.