HEATHROW AIRPORT LIMITED
COMPANY REGISTRATION NUMBER: 01991017

ANNUAL REPORT
2023

Heathrow

OUR VISION

TO GIVE PASSENGERS THE BEST AIRPORT SERVICE IN THE WORLD

OUR PURPOSE

TO MAKE EVERY JOURNEY BETTER

STRATEGIC REPORT

GOVERNANCE REPORT

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STRATEGIC REPORT

AT A GLANCE

UK's hub flies high in 2023 with much improved service and strong growth

2023 was a strong year for Heathrow, with passenger numbers recovering to **79.2 million**, the third highest year in Heathrow's history. The UK's hub outperformed all other European hubs by being rated as the '**best airport in Europe**', claimed the title of the world's '**most connected**' hub and broke into the top five largest airports in the world. These achievements are a great credit to the **teamwork and commitment of colleagues across Team Heathrow** and sets a strong foundation for 2024 as we attempt to welcome a record 81.4 million – more passengers than ever before.

79.2m

million passengers

New investments to improve service and boost resilience

Behind-the-scenes **investments are underway across the airport to boost passenger experience and operational resilience**. We are upgrading 146 security lanes as part of our £1 billion investment in next generation security equipment, and we have appointed a lead contractor to replace the T2 baggage system.

Ministers should use the Spring Budget to stand up for Britain

UK consumers will pay more to travel in the future if Ministers do not speed up the delivery of a domestic SAF industry, and the Chancellor makes the UK a magnet for international tourism spend by levelling the playing field with the UK's European rivals and bringing back tax free shopping. The Spring Budget should not miss the chance to deliver change on both of these key issues for the economy.

Small adjusted profit recorded for the first time since 2019

A **strong Q4 performance** helped us reach our first adjusted profit in four years with **£485 million adjusted profit before tax**. Our balance sheet remains strong, with gearing below pre-pandemic levels and **£3.8 billion of liquidity**. Airport charges were reduced by 20% in real terms at the start of 2024 in line with the CAA's H7 settlement, which means maintaining even a small profit will require us to close a £400 million gap with efficiencies and investment trade-offs over the next three years. We are finalising a refreshed business strategy, which will be shared in the months ahead. No dividends were paid in 2023, and none are currently forecast for 2024, although it is plausible, subject to financial performance. We will continue to review optionality through the year.

£485m

adjusted profit before tax

Sustainability remains at the heart of Heathrow

Significant strides were made towards our Heathrow 2.0 commitments, including launching the **Giving Back Programme**, which will deliver activities to nearly 100,000 local people. **Record amounts of sustainable aviation fuel ('SAF') were used at Heathrow during 2023**, including powering the inaugural 100% SAF transatlantic flight, and we committed to incentivising the use of up to 155,000 tonnes of SAF in 2024.

CHAIRMAN'S LETTER

Dear all,

This has been another strong year of recovery at Heathrow and we close 2023 with a great foundation on which to build."

LORD PAUL DEIGHTON
CHAIRMAN

While the past four years have been extremely challenging for the entire aviation sector, we have emerged as a more resilient airport. I'm sure everyone connected with the business will have learnt many valuable lessons along the way, but I believe we are now able to close this chapter in our history and look forward to the future.

At Heathrow, passenger traffic increased to 79.2 million – an increase of 29% on the previous year and broadly putting us back to where we were in 2019. In October, we reclaimed the titles of most connected airport in the world and the best airport in Europe. With connections to over 200 destinations in nearly 90 different countries and territories, we continue to play a vital role in connecting all of Britain to global growth. Adjusted EBITDA increased to £2.2 billion, an increase of 35% in the year, and we returned to a small adjusted profit before tax after three years of losses.

In March, we received the final decision from the Civil Aviation Authority ('CAA') on the H7 price control after a series of consultations and decision-making which lasted over six years. It hasn't been an easy process for anyone. While we didn't get what we wanted from the subsequent Competition and Markets Authority ('CMA') appeal, we recognise that we must move on. I'm sure we will have the opportunity to reflect on what we have learned from H7 with the CAA and our airline partners before the process for the H8 regulatory period commences. I maintain that a fair and balanced regulatory settlement, with the opportunity to earn a fair return, is critical to continue to attract the investment needed to deliver our plans.

Despite the final decision resulting in a more challenging settlement for the rest of the H7, we have commenced the next phase of investment in Heathrow to improve service. This includes significant investments in security lanes, replacing the Terminal 2 baggage system to drive improved resilience, and investments that will enable us to reduce our carbon emissions. Customers don't want us to trade-off any of the projects in our plan and so we must look at how we can be more efficient while still providing great journeys for our passengers.

Decarbonising the aviation sector remains at the centre of our strategy moving forward. We were pleased to achieve science-based validation from the Science Based Targets Initiative ('SBTi') for our 2030 carbon reduction goals, confirming they are consistent with a 1.5-degree carbon reduction trajectory. We continue to promote sustainable aviation fuel ('SAF') at the airport, with plans to progressively increase the volume of SAF used by airlines at Heathrow each year, targeting 11% by 2030. SAF has a fundamental role to play in aviation's pathway to net zero and we encourage the Government and industry to work together to increase supply through a domestic SAF industry.

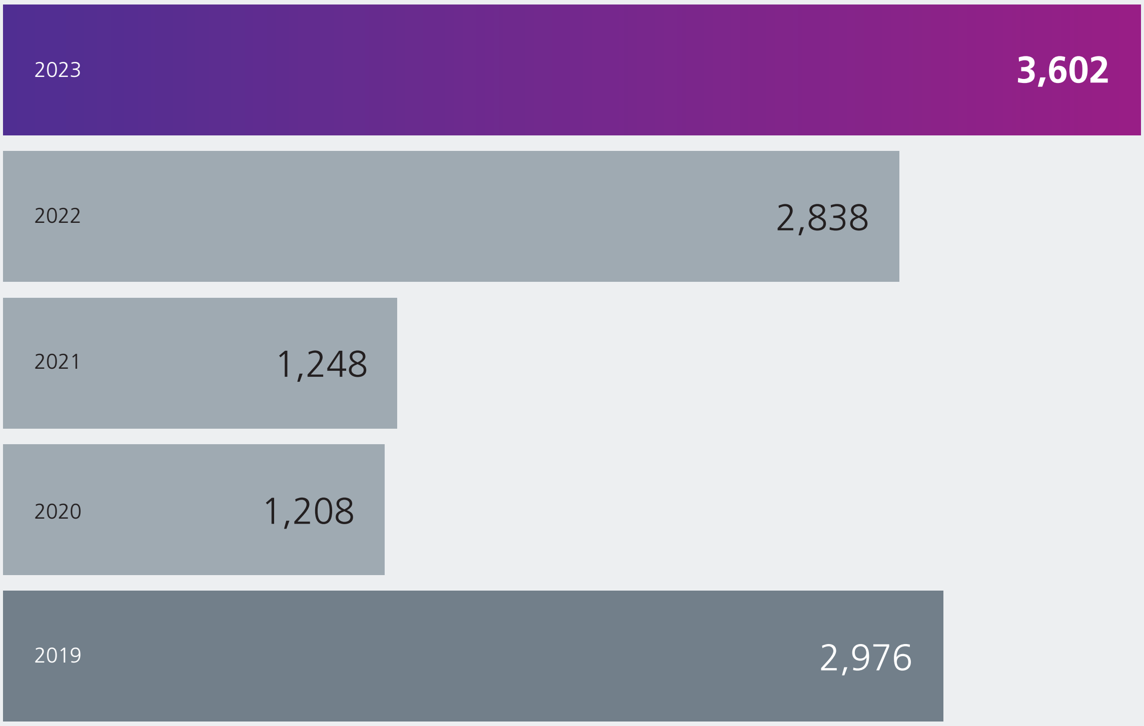
As we look ahead, we expect another year of passenger growth. Operationally, all of Team Heathrow have worked incredibly hard over the past year to scale all resources. Passenger service levels have improved as a result of the investment in recruitment and training. 2024 has started well and we look forward to welcoming even more passengers to Heathrow.

We said farewell to John Holland-Kaye in October after nine years as Chief Executive Officer. He transformed Heathrow into a leading global hub, steered the business through the pandemic and subsequent recovery, and led the industry towards a net zero future. In his replacement, Thomas Woldbye, we have appointed an exceptional leader with a wealth of experience and a proven track record as a CEO of a major airport championing passenger service, sustainability and growth.

I would like to extend a thank you to all our colleagues for their hard work and commitment over the past year. We have successfully navigated the recovery and now have a sound foundation on which we can build an even stronger hub for the United Kingdom in the next decade.

OUR KEY PERFORMANCE INDICATORS

FINANCIAL KPIS



REVENUE

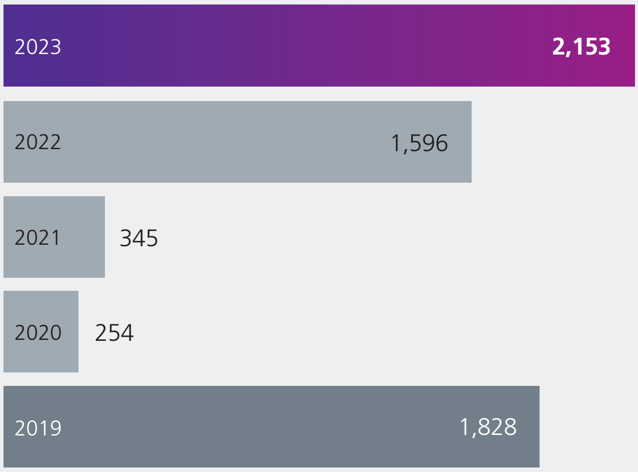
£3,602m

Revenue is an indicator of our top-line growth. It consists of aeronautical income, which is generated from fees charged to airlines for use of the airport's facilities, retail and other income from a variety of other sources. Revenue increased by 27% in the year due to the strong recovery in passenger numbers.

ADJUSTED EBITDA[1,2]

£2,153m

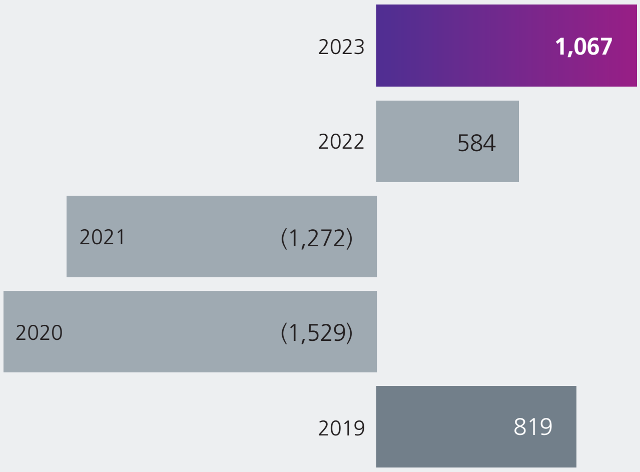
Adjusted EBITDA is an indicator of how we are delivering top-line revenue growth while remaining efficient and controlling operating costs. Adjusted EBITDA increased by 35% primarily driven by increased revenue.



PROFIT/(LOSS) BEFORE TAX

£1,067m

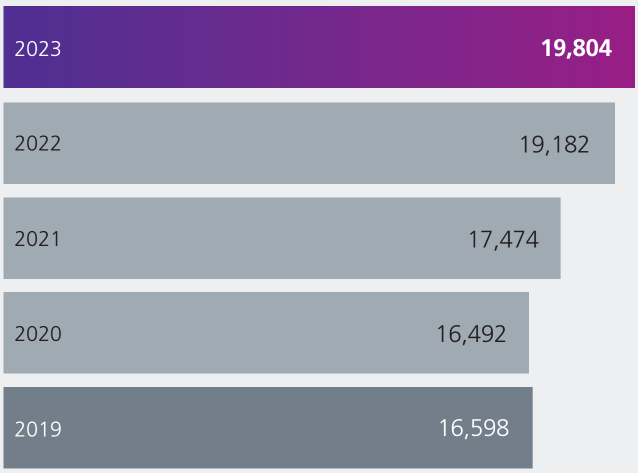
Profit/(loss) before tax is a measure of total return generated before taxation. Profit before tax includes net finance costs before certain re-measurements of £981 million and a non-cash fair value gain on financial instruments of £373 million.



REGULATORY ASSET BASE[1]

£19,804m

The Regulatory Asset Base ('RAB') is a regulatory construct based on predetermined principles, not based on FRS 102. It represents the cumulative net capital invested in Heathrow for which we earn a regulated return. By investing efficiently in our airport and constructively engaging with airlines, we add to our RAB over the long-term which, in turn, contributes to delivering shareholder value. The RAB has increased 3% in the year.



[1] Alternative Performance Measures ('APMs'): the performance of the Company is assessed using a number of APMs, including Adjusted EBITDA, Regulatory Asset Base and Consolidated nominal net debt. Management believes that APMs provide investors with an understanding of the underlying performance of the Group, while recognising that information on these additional items is available within the financial statements should the reader wish to refer to them. APMs are discussed in detail and defined from page 209 of the financial statements.

[2] EBITDA (2023: £2,362 million, 2022: £1,541 million) is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is EBITDA excluding fair value adjustments on investment properties and exceptional items. These APMs are reconciled on page 209 of the financial statements.

OPERATIONAL AND CARBON KPIS

PASSENGERS

79.2m

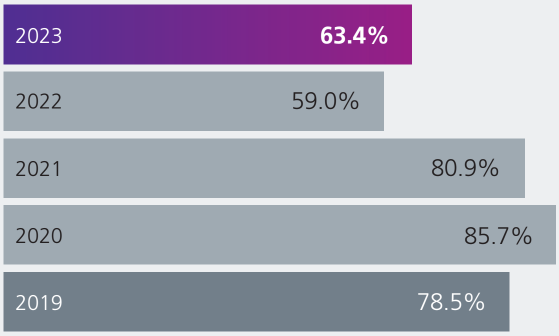
This is the sum of all arriving, connecting and departing passengers. In 2023 we welcomed 79.2 million passengers through the airport, an increase of 29% on the prior year and the third highest year in Heathrow's history.

PASSENGER SATISFACTION

3.99

An independent passenger satisfaction survey compares our performance against circa 350 airports worldwide. Passengers rate their experience on a scale from 1.00 to 5.00, where one is 'poor' and five is 'excellent'.
Our passenger satisfaction score in 2023 shows a slight improvement compared to 2022, despite a 28.6% increase in total passenger numbers.

[1] This is the passenger satisfaction score for the fourth quarter of 2020 as the ASQ survey was temporarily suspended in March 2020, due to the COVID pandemic, before resuming in August 2020.



DEPARTURE PUNCTUALITY

63.4%

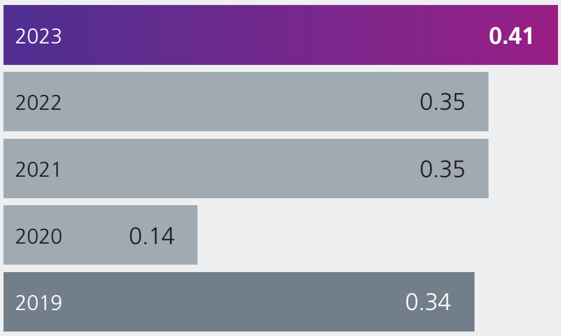
This is the number of flights that depart from their stand within 15 minutes of the scheduled time.

Departure punctuality increased in 2023 to 63.4%, but continues to be impacted by adverse weather events, strike action within Europe and airspace congestion.

BAGGAGE CONNECTION

98.1%

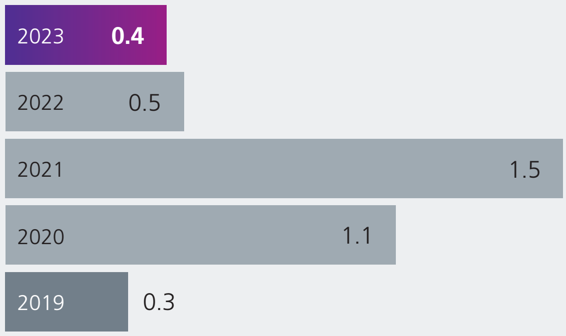
To improve service for every 1,000 passengers (direct and connecting), we measure the percentage who successfully travelled with their bags on the same flight. We put a great passenger experience at the heart of what we do; our operational ambition is 'every passenger, every bag, every time'.



LOST TIME INJURIES

0.41

We want everyone at Heathrow to go home safe and well to their loved ones at the end of each day. Lost time injuries are injuries sustained by colleagues while conducting work related duties, resulting in absence from work for at least a day, and is calculated as a moving annual frequency rate of the number of incidents, in the last 12 months, per 100,000 working hours. Our lost time injuries metric increased in 2023 to 0.41 mainly due to verbal and physical abuse absence being included from 2023.



SCOPE 1 AND 2 CARBON INTENSITY[2]

0.4

Scope 1 and 2 carbon intensity is a measure of how many kilograms of scope 1 and 2 carbon dioxide is produced per passenger. In 2023 our carbon emissions per passenger were 0.4, down from 0.5 in 2022.

[2] Scope 1 are all 'direct' CO_2e emissions from activities at Heathrow under our direct control, such as Heathrow's own vehicles, fuel required to heat our terminals and non-carbon emissions including refrigerant gases. Scope 2 are all 'indirect' CO_2e emissions from the electricity purchased for the organisation. Further details on our carbon footprint can be found on page 41 to 43.

OUR BUSINESS

WHAT WE DO

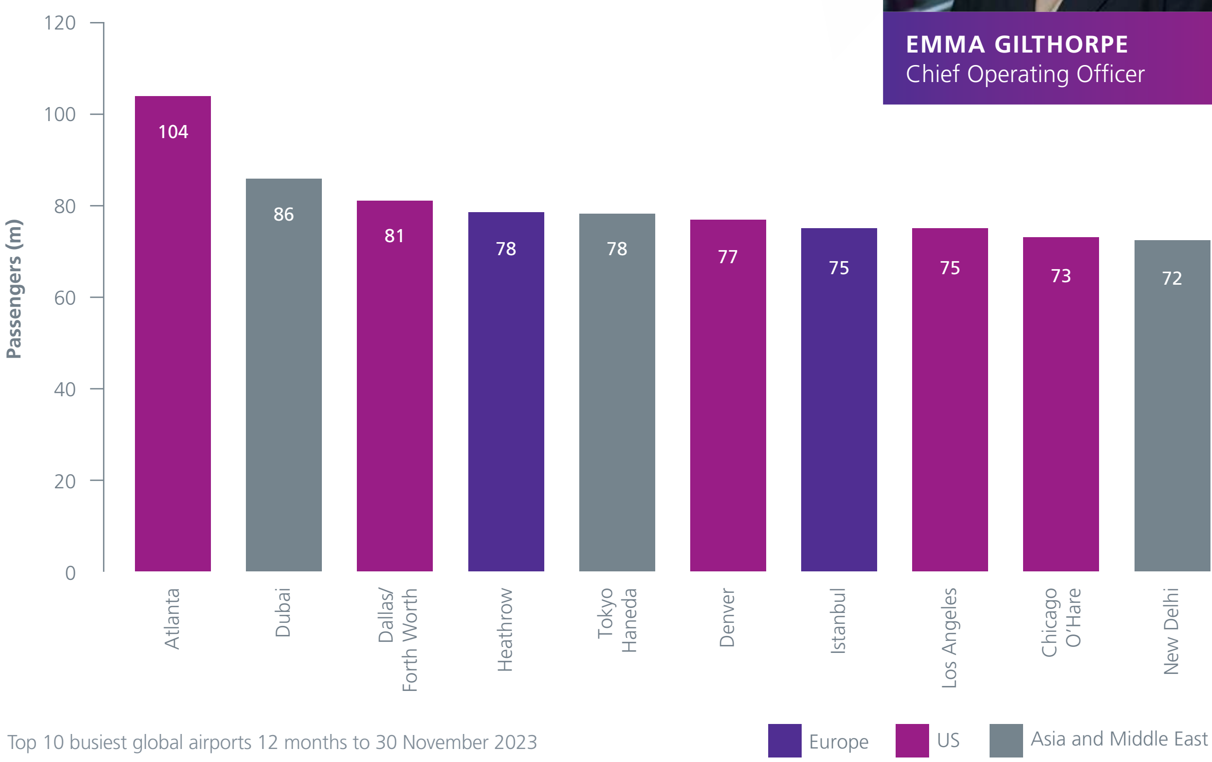
We are a service business that seeks to give passengers the best airport service in the world. Heathrow is the UK's only hub airport. Hub airports combine direct passengers, transfer passengers and freight to enable long-haul aircraft to fly to destinations all over the world. These destinations could not be served with regular, year-round flights by point-to-point airports that rely on local demand alone. In 2023, Heathrow reclaimed its status as the world's most internationally connected airport, according to the OAG Megahubs Index 2023.

In 2023, we served 79.2 million passengers, a 28.6% increase in passenger numbers compared to the prior year (2022: 61.6 million). Heathrow is currently the busiest passenger airport in Europe and the fourth busiest airport globally.

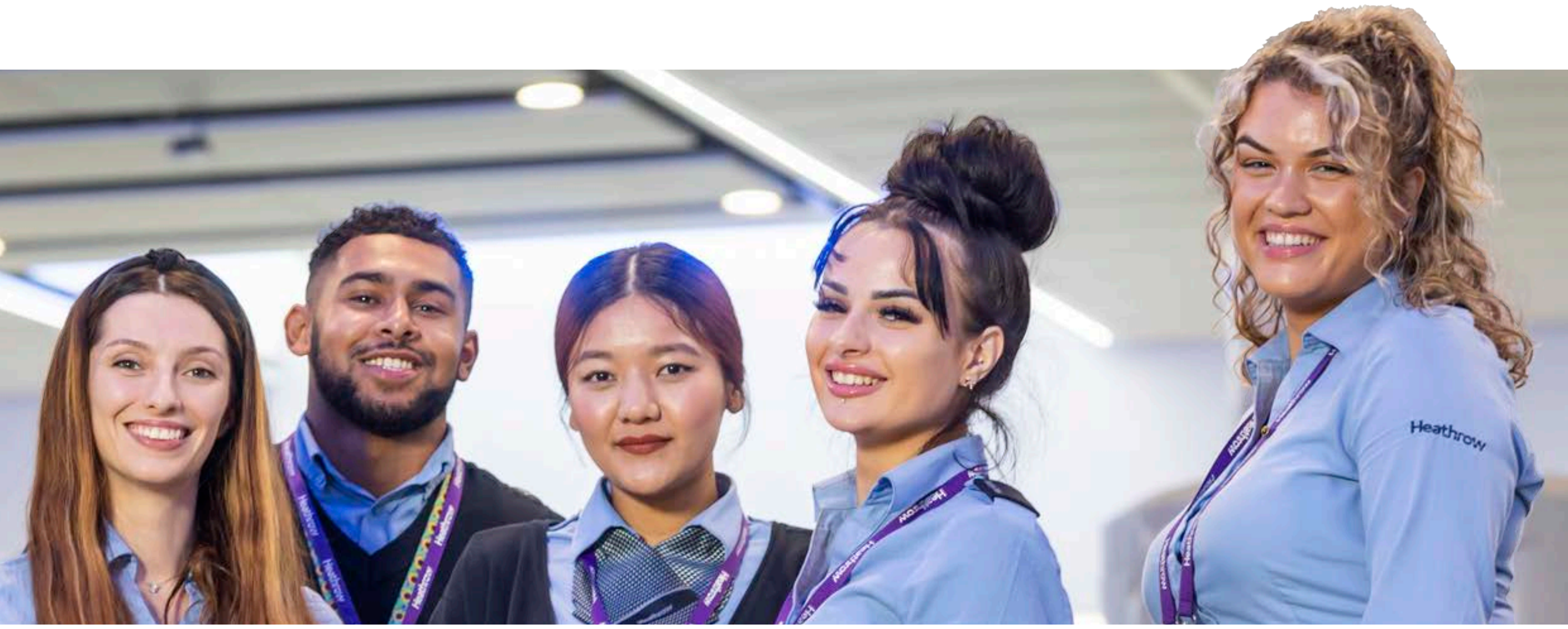
We serve a range of market segments, including business and leisure travellers, direct and transfer passengers, and long and short-haul routes operated by a diverse range of major airlines. As well as earning aeronautical income from airlines, we also generate income from a variety of other sources.

They include concession fees from retail operators, income from car parks, advertising revenue, rents from property space and income from the provision of airport facilities and transportation services, notably the Heathrow Express rail service.

EMMA GILTHORPE
Chief Operating Officer



Top 10 busiest global airports 12 months to 30 November 2023



We maintain a strong focus on operational performance, improving the passenger experience and investing in new and upgraded facilities. Heathrow was named the best airport in Europe and third best airport in the world at the 2023 Business Traveller Awards.

The structure of Team Heathrow is complex and services are delivered by multiple parties. As the diagram below shows, the airport structure involves four main stakeholder groups: the airport, the airlines, UK Government and Air Traffic Control. In practice it involves 85 airlines, 8 principal ground handlers, nearly 200 secondary airside handling companies and several Government functions.

Further details on our strategy can be found in the section starting on page 26.

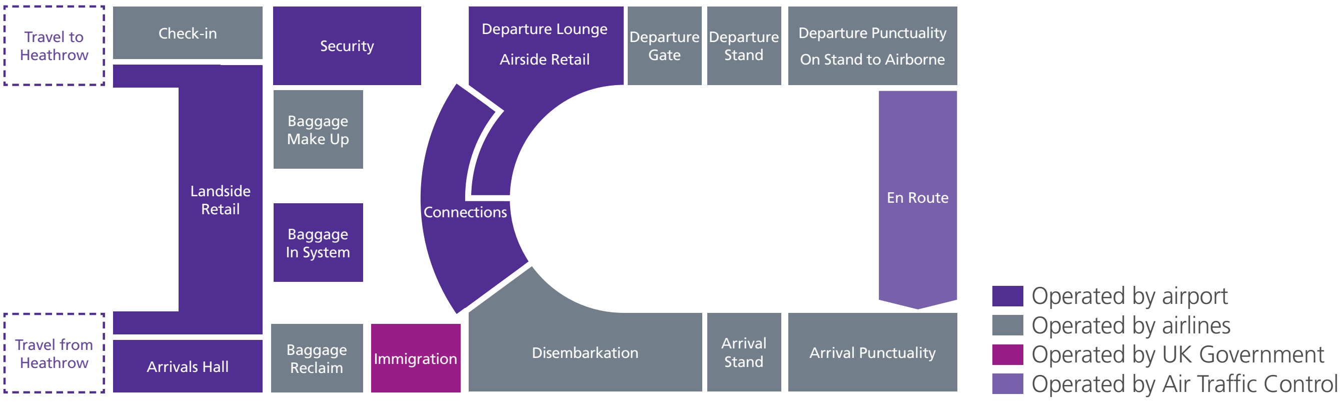
Long-haul passenger flights from Heathrow provide the trading routes which carry the UK's exports and supply chain. Heathrow is the largest UK port by value with 1.4 million tonnes of cargo, valued at £198 billion, passing through it in 2023 (2022: 1.4 million tonnes, valued at £203 billion).

Sustainability is core to our strategy. In 2023 we continued to build on our Heathrow 2.0 plan which aims to connect people and planet.

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

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

Further details of our commitment to sustainable growth can be found in the section starting on page 34.



Team Heathrow structure

INVESTMENT AND INFRASTRUCTURE

We have invested over £13 billion of private money, at no cost to taxpayers, transforming Heathrow's infrastructure since privatisation in 2006, including £604 million invested in 2023 (2022: £442 million).

Our H7 capital investment plan is centred around six core programmes:

- Asset management and compliance.
- Replacing the Terminal 2 baggage system.
- Next generation security.
- Investing in our commercial proposition.
- Investing in carbon and sustainability, to deliver our Net Zero goals.
- Investing to improve efficiency and service.

Terminals

We have four operational terminals:

- Terminal 2 is known as the 'Queen's terminal'. The new terminal 2: the Queen's terminal opened for business in 2014. The terminal measures 40,000 square metres. In 2023, 18.1 million passengers travelled through Terminal 2 (2022: 15.5 million).
- Terminal 3 was opened in 1961. The terminal measures 98,962 square metres. In 2023, 19.7 million passengers travelled through Terminal 3 (2022: 16.1 million).
- Terminal 4 opened for business in 1986 and underwent a major refurbishment in 2009. The terminal measures 105,481 square metres. In 2023, 8.1 million passengers travelled through Terminal 4 (2022: 3.3 million).
- Terminal 5 opened in 2008. The terminal measures 353,020 square metres. In 2023, 33.3 million passengers travelled through Terminal 5 (2022: 26.7 million).

Our total terminal capacity is estimated to be 85 million passenger per year. We have a total of approximately 58,600 square metres of retail space served by 315 open retail and food and beverage outlets.

Runways

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

The airport is permitted to schedule up to 480,000 air-traffic movements ('ATMs') per year. In 2023 we operated at 95% (2022: 79%) of this cap.

Other infrastructure

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

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

HELEN ELSBY
Chief Solutions Officer

REGULATORY ENVIRONMENT

The Regulatory Framework

As set out by the Civil Aviation Act 2012 (the Act), an airport with Significant Market Power ('SMP') must be subject to economic regulation by means of a licence issued by the Civil Aviation Authority ('CAA'), the UK's independent aviation sector regulator. In 2014 the CAA determined that Heathrow met SMP conditions and, as set out in the Act, issued Heathrow's economic licence.

Under the current regulatory regime the CAA establishes a price cap, the maximum amount that Heathrow can charge per passenger, for its services over the following regulatory period. The duration of the regulatory period is defined by the CAA and in most cases lasts five years.

In addition to setting prices, the CAA also defines service quality standards. These standards cover aspects such as baggage handling, security, and passenger services. Heathrow must meet these standards to ensure a satisfactory level of service for passengers and airlines.

The price cap calculation

The price cap is calculated via the 'building blocks' model. Based on this approach, the CAA:

- Estimates all costs Heathrow will have to incur to provide its services, including (i) operating expenditure, (ii) return to investors, considering cost of capital determined by the CAA, and (iii) regulatory depreciation. The cost of capital and depreciation amounts are based on the value of Heathrow's regulatory asset base ('RAB'), formed by the existing assets used to provide regulated services and planned capital investment.
- Deducts from these costs the projected revenues from commercial activities (e.g., retail and parking). This is the case because the CAA adopts a 'single till' principle, under which all airport activities (both aeronautical and commercial) are taken into consideration when determining the level of airport charges.
- Divides the resulting gap – i.e., the total required revenue to be covered by charges – by the forecasted passenger number to calculate a price cap per passenger, a per passenger maximum allowable yield.

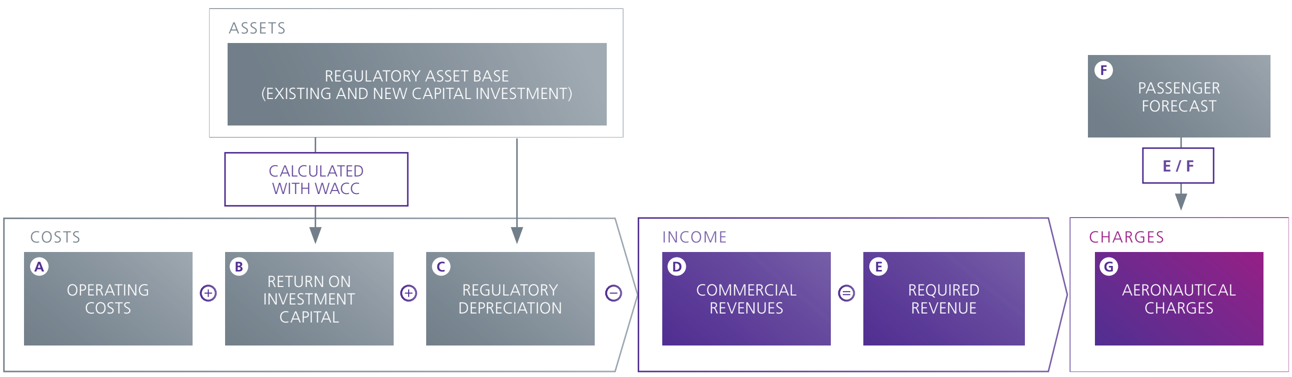
Incentives Regime

The framework aim is to replicate the outcomes of an efficient, competitive market, while allowing Heathrow to finance its activities and earn a reasonable rate of return. Heathrow can, however, outperform the CAA's economic settlement by attracting more passengers, reducing operating costs or delivering higher commercial revenues. In the opposite scenario, there's no automatic adjustment for shortfalls in our passenger numbers or additional costs unless in exceptional circumstances and agreed with the CAA. The framework includes several protection mechanisms for Heathrow though.

Protections

The regulatory framework provides Heathrow with important protections:

- The CAA has a statutory duty to set a return that secures financeability of our operations.
- Building blocks reset at a new baseline at the start of every regulatory period which restricts long-term risk exposure.
- Clarity and defined timing for recoverability of efficiently incurred capital investments through the RAB.
- Pricing is linked to CPI, and RAB value is linked to RPI.
- The H7 price control includes a traffic risk sharing mechanism to provide some protection against under performance on traffic volumes and sharing of outperformance.
- Some protection against exceptional circumstances, for example changes in security regulation proposed by the Government, changes in traffic mix, intra-period movements in property rates costs and capital investment risk in early phases of maturity.
- When market conditions are found to have changed or shifted, Heathrow can request the CAA to reopen a price control and use its powers under section 22 of the Civil Aviation Act to modify Heathrow's licence.



Building blocks for maximum allowable yield calculation

2023 REGULATORY DEVELOPMENTS

In March, the CAA published its final decision for the H7 price control period, after a process and period of consultation and decision-making which saw delays of around 18 months, lasting in total over six years.

Heathrow, British Airways, Virgin Atlantic and Delta submitted appeals, and, in October, the Competition and Markets Authority ('CMA') published its final determination on these appeals. Overall, the CMA considered that the CAA was not wrong in most of the aspects of its final decision which had been subject to appeal. However, the CMA considered that the CAA had erred on three specific elements:

- The CAA's mechanistic implementation of the AK Factor, which was introduced by the CAA to claw back revenue which in its view was 'over-recovered' against the maximum allowable yield in 2020 and 2021.
- The CAA made an error in a relatively minor aspect of its cost of debt calculation.
- In the passenger forecast, the CAA was wrong in relation to the calculation of the shock factor.

The CMA has issued an order to the CAA for these three elements to be reconsidered in sufficient time for any amendments to be incorporated into the price cap from 2025. The CAA has committed to reviewing the three elements during the first half of 2024.

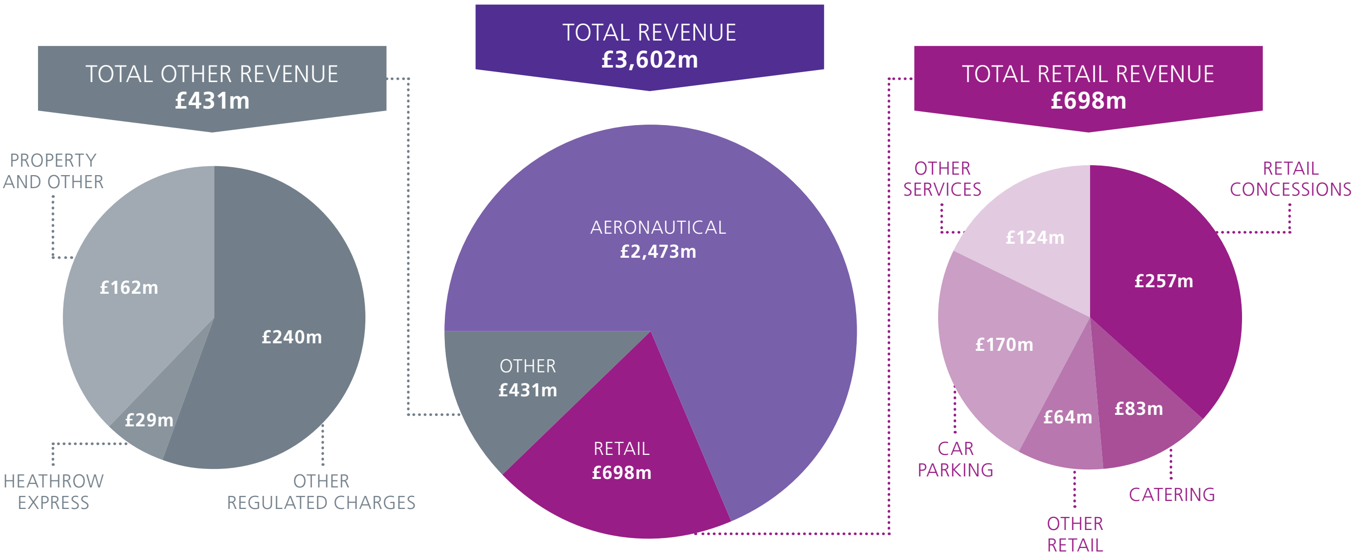
Earlier in the year, Heathrow provided a submission to the Department for Transport's ('DfT') independent review into the effectiveness and efficiency of the CAA, with the final publication delivered in July 2023. With the ongoing H7 process and subsequent CMA appeals taking place at that time, it did not allow for sufficient analysis into the delivery of the CAA's economic regulatory functions. However, amongst its recommendations, the DfT set out that the CAA's process for conducting economic regulation should be reviewed, considering the process, governance and 'mechanics' of its economic regulation activity.

We expect the CAA to complete its lessons learned review in the first half of 2024 – before the commencement of any discussions on the next regulatory period. The CAA timelines for H8 are also uncertain and have not been communicated, although we expect to see an initial timetable set out in Spring 2024.

Alongside the DfT's independent review into the CAA, there are several cross-government consultations and calls for evidence via the Department for Business and Trade, which are seeking to review and improve the UK's economic regulation framework and to boost future infrastructure investment. Heathrow welcomes the review, analysis and collaboration in this area and supports further proposals and developments in 2024.

GENERATING REVENUE

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



AERONAUTICAL INCOME

Aeronautical income reflects the fees charged by Heathrow to the airport's airline customers. The tariff structure can vary in consultation with stakeholders, but includes three key elements:

Passenger charges

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

ROSS BAKER
Chief Commercial Officer

Movement charges

Movement charges are applied to each aircraft on both take-off and landing. These are calculated in accordance with the certified maximum take-off weight of the aircraft and are banded into categories for aircraft weighing less than and those weighing more than sixteen metric tonnes, which includes nearly all commercial aircraft. These charges are broken into further categories based on the noise chapter rating of each aircraft, with the quietest aircraft within their category attracting a lower charge. The noise rating component of these charges also includes a multiplier effect for any movements that are unscheduled between 23:30 and 06:00. Arriving aircraft are also subject to an emissions charge based on their nitrogen-oxide ('NOx') rating.

Parking charges

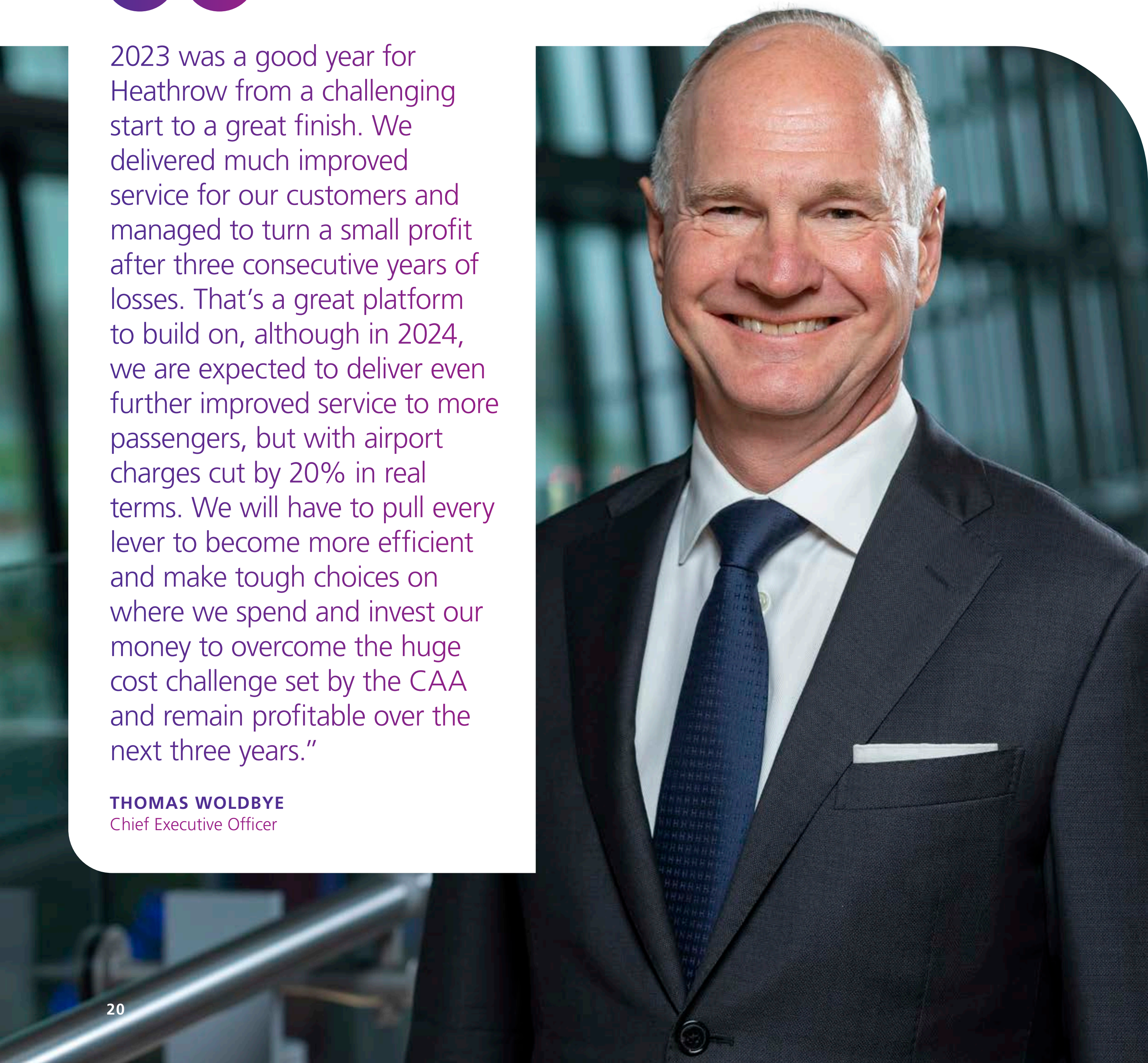
Parking charges are levied for each 15-minute slot after 30 and 90 minutes (narrow and wide-bodied aircraft respectively).

RETAIL AND OTHER INCOME

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

- **Retail** – concession fees from retail and commercial concessionaires and direct income from car parks, advertising and premium products.
- **Other regulated charges** – the recovery of certain costs incurred for the provision of facilities such as baggage handling and passenger check-in.
- **Heathrow Express** – fare revenue from the Heathrow Express rail service.
- **Property and other** – income from rental of airport property space, such as aircraft hangars, warehouses, cargo storage-facilities, maintenance facilities, offices and airline lounges.

CHIEF EXECUTIVE'S REVIEW



"2023 was a good year for Heathrow from a challenging start to a great finish. We delivered much improved service for our customers and managed to turn a small profit after three consecutive years of losses. That's a great platform to build on, although in 2024, we are expected to deliver even further improved service to more passengers, but with airport charges cut by 20% in real terms. We will have to pull every lever to become more efficient and make tough choices on where we spend and invest our money to overcome the huge cost challenge set by the CAA and remain profitable over the next three years."

THOMAS WOLDBYE
Chief Executive Officer

REVIEW OF THE YEAR

2023 was a strong year for Heathrow with passenger numbers recovering to 79.2 million, an increase of 28.6% on the previous year and the third highest in our history. We were rated the 'best airport in Europe' and reclaimed our position as "the most connected airport in the world", underscoring the pivotal role Heathrow plays in connecting all of Britain to global growth.

From a financial perspective, the increase in passengers resulted in an Adjusted EBITDA of £2.2 billion and we returned a small adjusted profit before tax of £485 million after three years of losses. We successfully raised £780 million of new funding, including our first sustainability-linked bond. This supported our year end liquidity position of £3.8 billion and, with gearing remaining below pre-pandemic levels, our balance sheet remained strong.

PASSENGER TRAFFIC INCREASED TO

79.2m

(an increase of 28.6%)

In March, the Civil Aviation Authority ('CAA') published their final decision on the H7 price control. We chose to appeal to the Competition and Markets Authority ('CMA') certain parts of the CAA's decision, including the WACC allowance, the £300 million RAB adjustment and the application of an additional K-factor. Unfortunately, the CMA determined that the CAA was not wrong in most of the aspects of the final decision, which had been subject to appeal.

Three specific elements have been referred to the CAA for further consideration, including the additional K-factor, although the CMA have indicated that they do not expect any changes which may arise to have a material impact on the final decision.

While the final decision sets a more challenging settlement under which to operate, we continued to progress our next phase of investment in the airport with £636 million of capital additions during the year. Work commenced across all six capital programmes with projects including the first new security lanes going live, the appointment of a lead contractor to replace the T2 baggage system and ongoing runway resurfacing work.

With an ongoing commitment to sustainability, we were pleased to be the first airport to achieve science-based validation from the SBTi for our 2030 carbon reduction goals, confirming they are consistent with a 1.5-degree carbon reduction trajectory. We also expanded our sustainable aviation fuel ('SAF') initiatives, building on the success of the previous year's incentive scheme. Our SAF incentive was set at 1.5% of the airport's fuel. Slightly less was delivered due to delays in supply, however we have plans for continued growth to 2.5% in 2024. We have seen a clear sign of the growing adoption of SAF with the world's first 100% SAF powered transatlantic flight departing Heathrow to New York in November, a landmark achievement for the UK aviation industry. With our financing framework directly linked to our sustainability strategy, Heathrow 2.0, we are making significant strides towards our carbon reduction targets 'In the Air' and 'On the Ground'.

Our overall success is highly dependent on our colleagues, which is why we prioritise making Heathrow a great place to work and provide career opportunities that allow people to reach their full potential. As we welcomed back even more passengers during the year and with detailed planning and close collaboration across all Team Heathrow, we rebuilt resourcing to capture this increased demand. Despite experiencing industrial action in April and May, our contingency plans enabled us to maintain the airport's smooth operation and we successfully signed a new two-year pay deal with our front-line colleagues.

ADJUSTED EBITDA INCREASED TO

£2.2 billion

(an increase of 35%)

We have started to see the benefit of the investments made in recruitment and training over the past two years, with much improved service for our customers. We achieved a score of 3.99 out of 5.00 in the global Airport Service Quality ('ASQ') survey, which was an improvement over the previous year, despite having almost one-third more passengers. We also made significant progress in security performance, with 92.8% of direct passengers passing through security within 5 minutes, compared to 69.4% in 2022. Our baggage connection rates remained stable, and we were able to reduce the gap between departures and arrivals punctuality from 11.2% in 2022 to 3.6% in 2023.

Our dedicated colleagues have exhibited exceptional commitment, working tirelessly in close collaboration with all Team Heathrow partners. Their collective efforts have played a pivotal role in supporting the recovery and with the pandemic now firmly behind us, we have a great foundation on which to build an even stronger hub for the United Kingdom.

KEY MANAGEMENT CHANGES

In May, we welcomed Raymond Chan who joined the Heathrow Airport Holdings Limited Board ('HAHL Board') as a Non-Executive Shareholder Director, representing Australian Retirement Trust, and we bill farewell to Chris Beale, who had represented Alinda, and resigned from the HAHL Board.

In September, we welcomed the appointment of Shawn Kinder to the HAHL Board as a Non-Executive Shareholder Director, representing Ferrovial, who replaced Maria Casero.

In October, John Holland-Kaye stepped down as Chief Executive Officer and Thomas Woldbye was appointed.

OUTLOOK

The performance outlook for 2024 remains consistent with the forecasts published in our Investor Report on 15 December 2023. We will continue to monitor performance and provide a further update on our Q1 results in April.

ULTIMATE SHAREHOLDER UPDATE

On 28 November 2023, Ferrovial announced that an agreement has been reached for the sale of its entire stake (c.25%) in FGP Topco Limited, the parent company of Heathrow Airport Holdings Limited, for £2,368 million. The agreement has been reached with two different buyers, Ardian and The Public Investment Fund ('PIF'), who would acquire Ferrovial's shareholding in c.15% and c.10% stakes respectively, through separate vehicles.

On 16 January, Ferrovial announced that, pursuant to the FGP Topco Shareholders Agreement, certain other FGP Topco shareholders have exercised their tag-along rights which resulted in 60% of the total issued share capital of FGP Topco being available for sale. The parties are currently investigating options to satisfy the exercised rights. While we acknowledge the existence of a change of control clause in the bonds issued by Heathrow Finance plc (a company outside of the independent securitised group) and the continuing nature of the negotiations, we are not at this time privy to any information that would lead us to believe that the change of control clause would be triggered.

THOMAS WOLDBYE
Chief Executive Officer
21 February 2024

CHIEF EXECUTIVE'S Q&A

Q1

What attracted you to Heathrow?

Naturally, I leapt at the opportunity to take the helm of what is arguably the most famous airport in the world. Throughout my career in the travel sector, I have always admired Heathrow's operational excellence, resilience, and relentless drive to deliver an excellent experience for its millions of passengers as the UK's economic and cultural gateway to the world. Heathrow's purpose 'to make every journey better' first resonated with me while travelling through the airport as a passenger many years ago, and it is an understatement to say how humbled I am to be leading Heathrow on this mission today.

> I have always admired Heathrow's operational excellence, resilience, and relentless drive to deliver an excellent experience for its millions of passengers."

Q2

You have now been in the business for four months, what have been your first impressions?

After receiving a really warm welcome, I have become hugely impressed by the diligence and drive of the whole of Team Heathrow in my first few months.

> I have become hugely impressed by the diligence and drive of the whole of Team Heathrow in my first few months."

Since joining in October, it has been wonderful to spend time behind-the-scenes with colleagues from across the airport: I have been lucky enough to meet some of our Engineering Teams, Security Teams, Fire Service Teams, Airside Operations Teams, and Passenger-Facing Teams. Despite these roles having very different responsibilities, I have been struck by our colleagues' shared commitment to making Heathrow a success, aiming to improve daily. Through spending time with the Communities Team and with local council leaders, I've also seen first-hand how dedicated colleagues are to improving the lives of our neighbours – the hard work certainly doesn't stop at our doorstep!

Q3

What do you see as the challenges and opportunities for Heathrow in this regulatory period?

I think the broad answer to this question is that the H7 settlement is challenging. The regulator has told us that we need to grow to serve more passengers, but with 20% less revenue. The challenge is how you close that gap to be a sustainable business delivering a consistent and reliable service for both customers and investors, while becoming more efficient and really testing what it is you invest in and deliver. The H7 regulatory settlement is a challenge and we, as guardians of Heathrow, shouldn't shy away from that. We will have tough choices about trade-offs that we have to make, but I believe we can overcome those challenges and still make Heathrow a better airport for the future and for the next generation.

Q4

How has your experience and background shaped your approach to leading Heathrow?

My approach is grounded in a continuous learning mindset: curiosity is the most integral aspect of my leadership philosophy, especially in such a fast-paced industry. It is my belief that in the business of airports and delivering excellent passenger experience, you must have a curious approach in order to treat people in the way that they want to be treated. Heathrow is great at lots of things, but it's key that we take the time to look over the perimeter fence; we've got to be curious about what best practice looks like at other airports around the world and in other sectors, so we can apply those learnings to our unique circumstances to "make every journey better". Curiosity also means embracing technological advancements, staying abreast of industry trends, and anticipating future challenges while looking for ways to empower colleagues to do their best work.

Q5

Heathrow has been a leader in setting strong sustainability commitments. What developments can we expect on this front next year?

A few months ago, I had the honour of being sat on the Virgin SAF 100 flight. It was so exciting to be a part of history, and part of a moment that shows that what we're aiming to achieve isn't just some distant dream but today's reality. We're making SAF as attractive and accessible as possible for our airlines; we want to see record uptake at the airport this year and show what can be achieved right now. SAF is our most powerful tool to solve our biggest challenge, and if we can just pool our collective energies to scale up its production and usage, we will have made the biggest difference to decarbonising aviation.

It's not just an opportunity we have, but a powerful responsibility to be a leader in sustainable aviation. SAF is one key piece of the puzzle but in order to solve the problem, we need to take a holistic approach and constantly ask ourselves, can we be doing more?

How can we develop our plans? We are assessing the different ways to heat the airport without fossil fuel and we'll reduce the amount of avoidable waste from our terminals; we'll also continue to develop ways to reduce pollution for our local communities and wildlife. Ultimately, achieving Net Zero has to be our number one priority today for the best possible future.

> We're making SAF as attractive and accessible as possible for our airlines; we want to see record uptake at the airport this year and show what can be achieved right now."

OUR STRATEGY

Our purpose is to make every journey better. We lead and work closely with Team Heathrow, collaborating to deliver reliable and predictable passenger journeys.

Operational resilience, along with excellent passenger experience remains a key focus as we plan to accommodate future growth in passenger demand. Our business priorities – Mojo, Transform Customer Service, Beat the Plan, and Sustainable Growth – support and guide our commitment to excellence.

As the UK's only hub airport and largest port, Heathrow is a national asset serving the national interest on a global stage. We have reclaimed our position as the most connected airport in the world, linking Britain to 207 destinations with ambitions to grow this further. We believe in the necessity of an expanded Heathrow to connect Britain to global trade and tourism, and we are working towards a deliverable, affordable, financeable, and sustainable solution.

Our strategic framework defines our identity and outlines the path to achieving our long-term goals. Focusing on engaged colleagues delivering excellent service, our priorities and values drive business success, securing our licence to operate and grow. Our commitment to excellent service and good value for money sets us apart, making passengers more likely to continue to choose Heathrow. Our leadership team focuses on growth, supported and enabled by a carefully prioritised capital plan. Despite a challenging Civil Aviation Authority settlement, we plan to continue investing in improving the things that matter most to customers and reducing carbon emissions.

CHRIS ANNETTS
Chief Strategy Officer

OUR PLAN TO ACHIEVE OUR VISION

WHO WE ARE	VISION	To give passengers the best airport service in the world
	PURPOSE	Making every journey better
	PRIORITIES	MOJO; TRANSFORM CUSTOMER SERVICE; BEAT THE PLAN; SUSTAINABLE GROWTH
	VALUES	KEEPING EVERYONE SAFE; TREATING EVERYONE WITH RESPECT; GIVING EXCELLENT SERVICE; WORKING TOGETHER; IMPROVING EVERYDAY; DOING THE RIGHT THING
OUR PLAN TO ACHIEVE OUR VISION	MASTERPLAN	The long-term plan for the layout of an expanded Heathrow
	MANAGEMENT AND REGULATORY BUSINESS PLAN	The consumer outcomes, action and resources we need to deliver our strategy including over the next regulatory period

Our priorities explained

MOJO

To be a great place to work, we will help our diverse colleagues fulfil their potential and work together to lead change across Heathrow with energy and pride.

TRANSFORM CUSTOMER SERVICE

To deliver the world's best passenger experience, we will work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience.

BEAT THE PLAN

To secure future investment, we will 'beat the plan' and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments efficiently.

SUSTAINABLE GROWTH

To grow and operate our airport sustainably, now and in the future.

Our values explained

DOING THE RIGHT THING

Doing the right thing means acting with **integrity** and thought for others, ourselves and Heathrow. It means living the values in everything we do and underpins all our **actions, decisions and interactions.** Doing the right thing is something that sets us apart. For colleagues at Heathrow, it's something that is ingrained in our culture from our proud history and connects all of us. It enables us to **feel confident in our decisions** and **proud of our actions.** We're **responsible in the way we do business.** We take a lead on Sustainability and doing the right thing by being a good neighbour and delivering against Heathrow 2.0.

'Doing the Right Thing' means…

- Take care, do things right
- Own our actions
- Take pride in what we do

KEEPING EVERYONE SAFE

Caring for ourselves and one another, so that we feel **safe, secure and well** and empowered to **speak up**, across all settings and activities. We notice and care and act with consideration for others, ourselves, Heathrow and the community. The safety of our colleagues and passengers has always been a **non-negotiable.** It's our first and foremost objective to running our business. The **physical and mental wellbeing of ourselves and each other** has never been more important, so they go hand in hand. When we and those around us feel safe, secure and well, we can achieve and enjoy a great place to work.

'Keeping Everyone Safe' means…

- Look out for ourselves and others
- Stop, think and act
- Care and speak up

WORKING TOGETHER

Working together constructively to achieve a common goal. We are stronger and achieve more when we work together. It feels good to be **valued for your contribution,** to **appreciate others and to bring out the best in each other.** Working together supports a sense of **belonging and connection**, with us each playing our part to achieve the best outcomes.

'Working Together' means…

- Connect with others to deliver our best work
- Bring out the best in each other
- Recognise and appreciate others

TREATING EVERYONE WITH RESPECT

In every Heathrow interaction, people are valued, respected, included and treated fairly. Everyone deserves to be treated with respect and consideration. When we feel respected and included, we can **trust one another** and feel **confident to bring our true selves to work and able to speak up.** Trust enables us to have honest conversations and the confidence to face challenging situations to achieve the best solutions. An inclusive culture leads to **diversity of ideas** and helps us to make better decisions.

'Treating Everyone With Respect' means…

- Value everyone's contribution
- Actively listen to understand
- Embrace differences

GIVING EXCELLENT SERVICE

Giving excellent service is about our ambition to lead, to **be our best and give our best.** It means living our **Service Signatures in every interaction** - with colleagues, customers and partners. We give excellent service because we are proud that passengers see Heathrow as the best place to fly from, through and to. By doing this we will achieve our vision of giving passengers the best airport service in the world.

'Giving Excellent Service' means…

- Notice and Care
- Share what we Know
- Make things Better

IMPROVING EVERYDAY

Being ambitious and always striving for the best, with the right tools and mindset to succeed. We feel proud of our ambition and feel fulfilled because we are always **improving, learning and growing** together in the pursuit of it. We **grow and learn** from each other by **sharing our knowledge and experience.** It's **not always about perfection** every time, but a desire to **embrace change** and have a **growth mindset.** We **learn from the past and apply those learnings to the future** to continuously reach the best solutions.

'Improving Everyday' means…

- Keep things simple in every interaction
- Seek out new opportunities
- Learn, adapt and grow

OUR STAKEHOLDER GROUPS

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

PERFORMANCE AGAINST STRATEGIC PRIORITIES

MOJO

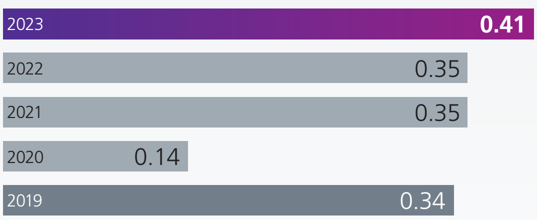
In 2023, 67% (2022: 54%) of colleagues agreed Heathrow is a great place to work through our Mini Pulse survey.

Throughout 2023, we continued to grow the organisation, with a focus on upskilling our colleagues and offering career development through new opportunities. Our career and talent strategy focuses on identifying potential, offering career support and a range of learning and development programmes, underpinned by an effective and efficient resourcing service that facilitates internal mobility. We introduced new leadership development programmes, an internal careers advice service and a colleague internship programme, aimed at giving colleagues experience in different functions to grow their capability. In total during the year, we promoted 594 colleagues (2022: 576) and had 2,465 individuals engaged in training and development programmes (2022: 285).

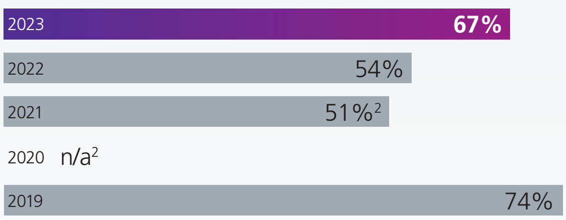
We remain committed to the safety of our passengers and colleagues to ensure everyone goes home safely every day. For the year ended 31 December 2023 our lost time injuries metric was 0.41 (2022: 0.35), an increase compared to 2022. The increase was predominantly due to lost time injuries being reported for verbal and physical abuse incidents. As we focus on continuous improvement, close call internal reporting has continued to increase, and we have finished above the 2023 target.

PERFORMANCE INDICATORS

LOST TIME INJURIES[1]



COLLEAGUE ENGAGEMENT[1]



[1] Injuries sustained by colleagues whilst conducting work related duties resulting in absence from work for at least a day, calculated as a moving annual frequency rate of the number of incidents in the last 12 months per 100,000 working hours. Verbal and physical abuse absence is included from 2023 (Lost time injuries). Percentage of colleagues who agreed that Heathrow is a great place to work through our miniPulse colleague survey (Colleague engagement).

[2] Due to the COVID pandemic, the miniPulse colleague survey was suspended in 2020, before resuming in March 2021. Colleague engagement for 2021 is based on the average from March to December 2021; the decline compared to historical results is predominantly due to the pandemic and the subsequent business impacts.

TRANSFORM CUSTOMER SERVICE

In 2023, we achieved an overall ASQ rating of 3.99 out of 5.00 (2022: 3.97). This shows a slight improvement compared to 2022 despite a 28.6% increase in total passenger numbers.

Overall, 74% of passengers surveyed between January and December rated their overall satisfaction with Heathrow as either 'Excellent' or 'Very good', marking a slight improvement compared to 2022 (2022: 73%), with the proportion of 'Poor' ratings remaining low at just 1%.

For the year ended 31 December 2023, satisfaction with the Helpfulness/Attitude of Airport Staff ('QSM') remained stable at 4.38, despite handling 17 million more passengers over the year. Overall, 95% of passengers rated Helpfulness/ Attitude of Airport Staff as 'Excellent/ Good', again consistent with last year. The proportion of 'Poor/Extremely Poor' ratings remained low at 1%.

Overall operational resilience was strong in 2023. Security performance has been very good, with 92.8% (2022: 69.4%) of direct passengers passing through security within 5 minutes. Despite a significant increase in demand and unfavourable external factors including weather, strikes and airspace congestion, we have improved overall punctuality during the year. Since the start of the winter schedule, we have seen a stronger performance with departure punctuality exceeding arrival punctuality[1], proving good turnaround performance. This has also been reflected in the punctuality gap between departures and arrivals, narrowing from 11.2% in 2022 to 3.6% in 2023. Baggage connection performance has remained stable at 98.1% (2022: 98.0%).

PERFORMANCE INDICATORS

PASSENGER SATISFACTION ('ASQ')[1]

2023	**3.99**
2022	3.97
2021	4.23
2020	4.24[2]
2019	4.17

SECURITY QUEUING[1]

2023	**92.8%**
2022	69.4%
2021	97.1%
2020	95.2%
2019	96.3%

DEPARTURE PUNCTUALITY[1]

2023	**63.4%**
2022	59.0%
2021	80.9%
2020	85.7%
2019	78.5%

BAGGAGE CONNECTION[1]

2023	**98.1%**
2022	98.0%
2021	99.0%
2020	99.2%
2019	99.0%

COURTESY AND HELPFULNESS OF AIRPORT COLLEAGUES ('QSM')[1]

2023	**4.38**
2022	4.38
2021	4.58
2020	4.42[3]
2019	4.35

[1] Airport service quality ('ASQ'); percentage of flights leaving the stand within 15 minutes of schedule (Departure punctuality) or arriving within 15 minutes of schedule (Arrival punctuality); percentage of passengers passing through central security within five-minute period (Security queuing); percentage of connecting bags travelling with the passenger (Baggage connection); quality of service monitor ('QSM').

[2] This is the passenger satisfaction score for the fourth quarter of 2020 as the ASQ survey was temporarily suspended in March 2020, due to the COVID pandemic, before resuming in August 2020.

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

BEAT THE PLAN

In 2023, Heathrow welcomed 79.2 million passengers, an increase of 17.6 million, or 28.6%, compared to the prior year. This included a very strong Christmas period with our busiest ever December. We outperformed all other European hubs by being rated as the 'best airport in Europe' and the world's 'most connected' hub.

Our main markets continued to demonstrate strong performance, with our transatlantic routes performing particularly well. New York (JFK) maintained its position as our most popular destination, serving over three million passengers for the first time since 2019. In total, we had 24 routes which served over a million passengers this year. Latin America, Africa and Asia Pacific also experienced a significant rebound in traffic figures, in particular the Asia Pacific region, considering that borders only fully reopened earlier in the year. Terminal 5 experienced its busiest year ever, with more than 33 million passengers. By the end of the year, we were connected to 207 destinations in 88 countries and territories, up from 189 and 84 respectively last year.

Passenger air transport movements ('ATMs') grew by 22.6%, slightly behind the increase in passenger numbers. This resulted from aircraft operating with slightly higher seats per ATM (221 compared to 218 in the prior year) and higher load factors (79.6% compared to 77.0% in the prior year). This combination of higher load factors and the use of bigger aircrafts provides further opportunities for growth.

Our cargo tonnage, including mail, experienced an increase of 2.2% compared to 2022. Despite the return of belly hold capacity to normal levels on numerous routes, cargo tonnage continues to lag due to the global air cargo industry grappling with the impacts of various macroeconomic factors, which have led to subdued demand.

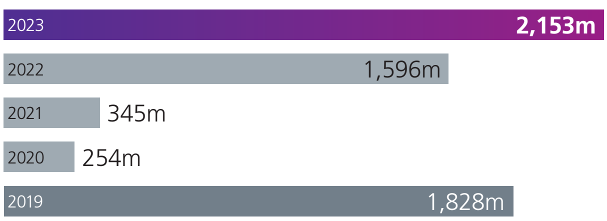
Finally, we saw an increase in inbound tourism during 2023, and the percentage of business travel also recovered slightly, rising from 26% in 2022 to 27% in 2023. This figure, while on the rise, remains below the pre-pandemic level of 32% in 2019.

PERFORMANCE INDICATORS

Passengers (millions)[2]	2023	2022	Var. %[3]
UK	**4.2**	3.4	23.5
Europe	**31.5**	25.7	22.6
North America	**20.0**	15.4	29.9
Asia Pacific	**9.8**	5.5	78.2
Middle East	**8.0**	6.9	15.9
Africa	**3.6**	2.9	24.1
Latin America	**2.1**	1.7	23.5
Total passengers	**79.2**	**61.6**	**28.6**

Other traffic performance indicators[2]	2023	2022	Var. %
Passenger ATM[4]	**450,193**	367,160	22.6
Load factors (%)[4]	**79.6**	77.0	3.4
Seats per ATM	**221.0**	218.0	1.4
Cargo tonnage ('000)[5]	**1,431**	1,351	2.2

ADJUSTED EBITDA[1] £M



[1] Further analysis can be found in the Financial Review on page 52.
[2] For the year ended 31 December.
[3] Calculated using unrounded passenger figures.
[4] Passenger air-traffic movements ('ATM') includes commercial flights including scheduled, chartered and cargo and excluding positioning and private flights; load factor is a percentage of seats filled by passengers.
[5] Cargo tonnage for 2022 has been revised to include mail volumes.

SUSTAINABLE GROWTH

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

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

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

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

Further details can be found in the expansion section on page 50.

OUR COMMITMENT TO SUSTAINABLE GROWTH

PILLARS

NET ZERO AVIATION

GREAT PLACE TO LIVE AND WORK

OBJECTIVES

Net zero in the air
GOAL BY 2030:
Up to 15% cut in carbon compared to 2019

Net zero on the ground
GOAL BY 2030:
At least 45% cut in carbon compared to 2019

Clean air at and around the airport
GOAL BY 2030:
Reduce NOx airside by 18% compared to 2019

Quieter nights, quieter flights
GOAL BY 2030:
Limit and where possible reduce the number of people highly sleep disturbed and highly annoyed compared to 2019

Nature positive airport
GOAL BY 2030:
Work with partners to support a nature network around Heathrow

Zero waste airport
GOAL BY 2030:
Maximise reuse, recycling and recovery of materials used at Heathrow

Thriving sustainable supply chain
GOAL BY 2030:
Maximise suppliers achieving gold standard against our Balanced Scorecard

Better quality of life in Heathrow's neighbouring communities
GOAL BY 2030:
Give back to 1 million people in our local communities

Inclusive employer of choice for local diverse talent
GOAL BY 2030:
Reflect the diversity of our local community at all levels

Inclusive employer of choice for local diverse talent
GOAL BY 2030:
10,000 external jobs, apprenticeships and early career opportunities

SUSTAINABLE DEVELOPMENT GOALS

RESPONSIBLE BUSINESS FOUNDATIONS

Heathrow 2.0: Connecting People and Planet is our sustainability strategy. In it, we focus on the environmental, social and governance ('ESG') issues where the airport needs to make the biggest difference by 2030. We recognise that success against our goals and targets is only possible by working collaboratively with partners.

In 2023, operations at Heathrow recovered after the COVID pandemic and we have been able to make considerable progress towards our sustainability goals.

We have continued to build on our Heathrow 2.0 core pillars of achieving net zero aviation in the fight against climate change and making Heathrow a great place to live and work, with an emphasis on mitigating the environmental impacts of operating the airport and promoting sustainable economic development within our local communities and businesses.

These are underpinned by our responsible business foundations, which promote best practice governance and conduct, and ensure that we continue to deliver strong performance across a range of relevant ESG issues.

There is strong alignment between the United Nations' Sustainable Development Goals ('SDGs') and Heathrow 2.0. In the chart opposite we have summarised which goals apply to each of the two pillars. The SDGs are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

In 2023, we delivered tangible progress against several of our key objectives and goals, which is outlined in the following sections, with further detail provided in our latest Sustainability Report.

In some areas of Heathrow 2.0, we are already outperforming the goals and targets that we set in early 2022, and in 2024, we are planning to update some targets to reflect this success and ensure that we are pushing ourselves to improve. In other areas, we have focused on developing our strategies to ensure that we are setting stretching goals and targets backed up by robust evidence. Our progress towards meeting our net zero goals remains steady, as we acknowledge that these are bold ambitions. In addition, we continue to work hard to meet ethnic diversity targets, particularly at senior management levels.

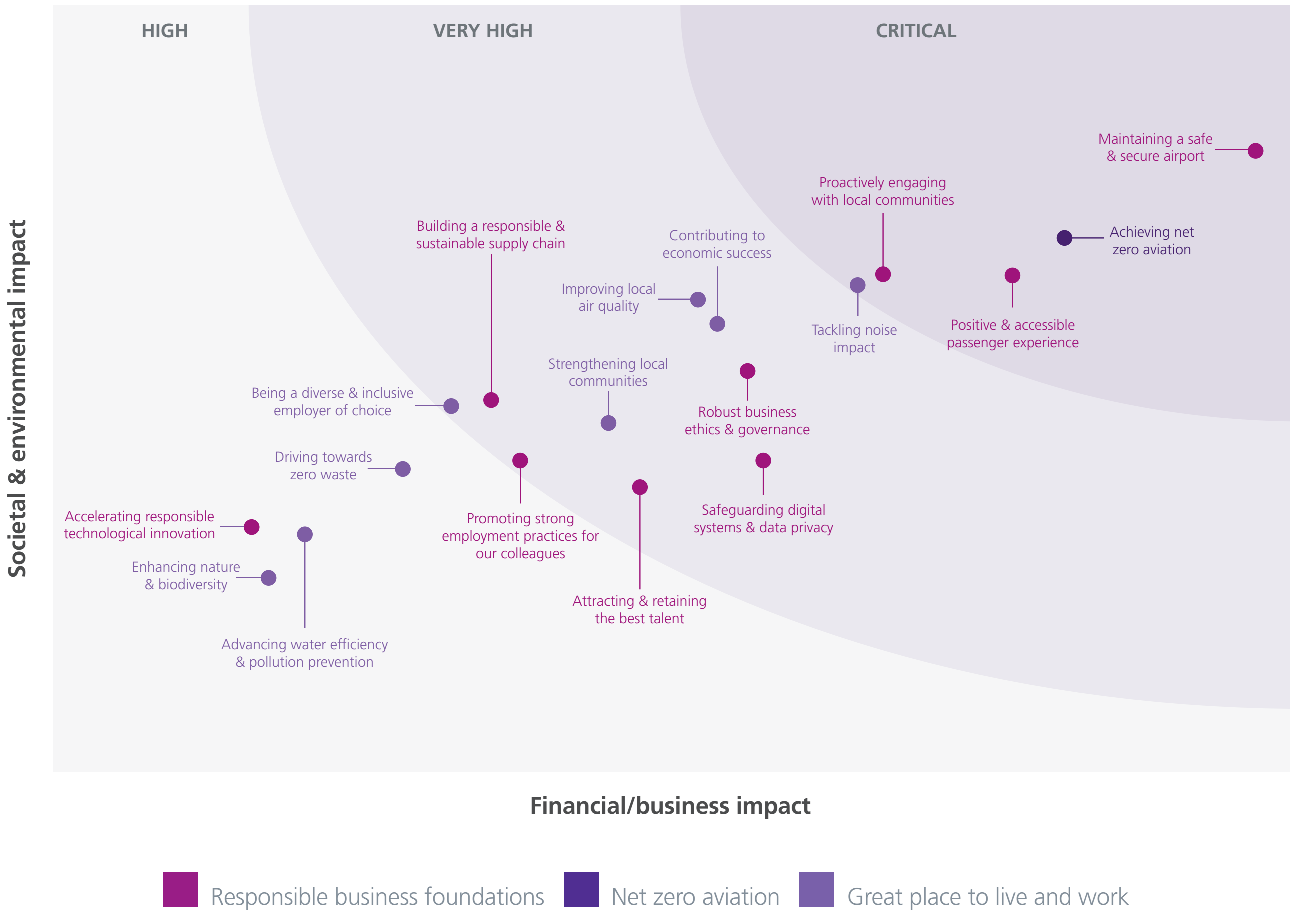
We are acutely aware that sustainability is a fast-evolving area. We are responding where necessary to evolve and strengthen our strategic approach which will be published later in 2024 as an update to the current version of Heathrow 2.0.

Further information on the strategy, our Heathrow 2.0 Plan can be found at **http://www.heathrow.com/sustainability**

To ensure that Heathrow 2.0 remains focused on addressing the issues and impacts that are most important for our business and our stakeholders, in 2023, we undertook a double materiality assessment, where a range of ESG topics were considered from both a financial and an impact materiality perspective. The results confirmed the importance of Heathrow continuing to act on a range of ESG issues. The key topics identified continue to demonstrate the importance of achieving net zero, but they also give a higher priority to maintaining a safe and secure airport than in our previous assessment. In general, they put more emphasis on Heathrow's responsible business foundations, including our engagement with communities and how we promote our passenger experience. More details of the materiality assessment can be found in our 2023 Sustainability Report.

NIGEL MILTON
Chief of Staff and Carbon

MATERIALITY MATRIX 2023



SUSTAINABILITY LINKED FINANCING

In July 2023, Heathrow became the first airport in the world to launch an innovative Sustainability-Linked Bond ('SLB'). The SLB is linked to our sustainability strategy, Heathrow 2.0, and specifically to our carbon reduction targets 'In the Air' and 'On the Ground'. Underpinning the bond performance is our Science Based Targets Initiative ('SBTi') accreditation which validates that Heathrow's carbon reduction goals are aligned with the 1.5 degree pathway.

The mechanism is particularly progressive as it incorporates Heathrow's scope 3 emissions, most materially those relating to emissions from aircraft. Accounting for 99% of Heathrow's carbon footprint, scope 3 emissions describe all indirect greenhouse gas emissions from activities relating to Heathrow Airport and arising from sources that the airport does not own or control, such as emissions from aircraft and vehicles operated by others at the airport. Further details on our carbon footprint can be found on pages 41 to 43.

INDEPENDENT ASSURANCE OF SUSTAINABILITY DATA

In this report, we have included 2023 data on several key issues. Bureau Veritas UK Limited have provided independent, limited assurance for Heathrow's greenhouse gas ('GHG') emissions data and noise, charity and diversity KPIs, covering the period 1 January 2023 to 31 December 2023. Verification statements and further detail across the breadth of issues covered in Heathrow 2.0 can be found in our latest Sustainability Report.

Our 2023 Sustainability Report, Verification statement and Methodology can be found at **www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/reports-and-futher-reading**

SUSTAINABILITY GOVERNANCE

In 2023, we undertook an extensive review of sustainability and ESG governance at Heathrow. This review led to the establishment of the ESG Committee, a new formal sub-committee of our Executive Committee, to strengthen oversight of how we set and deliver our sustainability strategy. Sustainability is embedded in our culture and through our governance structures. Key aspects include:

- **Heathrow Airport Holdings Limited Board of Directors:** Our Board reviews progress against our sustainability strategy quarterly, and it also has a sub-committee dedicated to this important issue which meets quarterly: the Sustainability and Operational Risk Committee ('SORC'). The SORC is chaired by Joan MacNaughton, a respected figure in international energy and climate policy. In addition, the Chair of the Audit Committee, Olivier Fortin, is the Board's Climate Change Director and is responsible for climate change risk and disclosure at Board level.
- **Executive team:** Our Chief Executive and the Executive leadership team provide strategic direction for the delivery of Heathrow 2.0 through their functions. As Chief of Staff and Carbon, Nigel Milton is responsible for setting Heathrow's strategic direction on sustainability issues.
- **ESG Committee:** Chaired by the Chief of Staff and Carbon, the ESG Committee's purpose is to set the direction for the sustainable transformation of Heathrow's business, integrating ESG commitments in decision-making and core business strategy. It assesses and defines material ESG issues, risks and opportunities for Heathrow. It provides co-ordination, visibility and scrutiny of progress, data collection and monitoring, and disclosure of ESG-related matters.
- **Charities and Communities Committee:** Chaired by the Chief of Staff and Carbon to support the delivery of Heathrow's corporate objectives through our charities and communities activity and maximise the social impact of Heathrow through its investment in these activities.
- **The Carbon and Sustainability Programme Committee ('CSPC'):** Chaired by the Carbon Strategy Director, the CSPC provides governance over the Carbon and Sustainability programme and reports into the Heathrow Investment Committee, a formal sub-committee of the Executive Committee.
- **The Heathrow 2.0 Leadership Committee ('H2.0LC'):** Chaired by the Communities and Sustainability Director, the H2.0LC is an informal steering group that facilitates Senior Leadership Team input into the development and delivery of our sustainability goals and targets.

NET ZERO AVIATION

The fight against climate change will continue to define the 21st century. At Heathrow, this is of particular importance. Every UK business needs to reach net zero by 2050, and the aviation industry is no exception. However, there are no substitutes for the global connectivity, cultural exchange and trade that the sector delivers.

Emissions from aircraft make up over 95% of Heathrow's carbon footprint – a scale shared by airports across the globe. At Heathrow we aim to achieve net zero carbon emissions by 2050, with a key focus on working with airlines to encourage new and cleaner ways to operate.

Heathrow 2.0 sets out how we will do this, with goals to cut carbon in the air by up to 15% and on the ground by at least 45% by 2030. These goals reflect the urgency to achieve absolute emissions reductions this decade. Our aim remains for 2019 to be the year of peak carbon from Heathrow, with emissions never returning to 2019 levels as Heathrow continues to recover and grow.

Airlines flying the most efficient aircraft, combined with a more efficient design of the airspace they operate in, represent incremental tools which have a big role to play in cutting up to 15% of carbon from flights operating at Heathrow. However, the solution that is already having an impact, and will deliver the greatest impact, is the switch to sustainable aviation fuel ('SAF').

Whilst changes are needed in the air, it is crucial that we make changes on the ground too, where Heathrow has much more direct control. We want to lead by example and get our own house in order.

Our commitment to cutting emissions on the ground focuses on enabling passengers and colleagues to travel to the airport sustainably, delivering a net zero supply chain, and investing in efficient infrastructure. Heathrow is aiming to ensure all airport operational vehicles emit zero emissions or use biofuels by 2030. Around 19% of all airport vehicles are already zero emission vehicles.

To achieve our carbon goals, we are making significant changes to our buildings, infrastructure and operations, and are working with partners at the airport and across our industry. Where we do not directly control emissions, we are working in partnership to influence others, particularly our airline customers, companies operating at the airport, our passengers, manufacturers, fuel producers, policymakers and the UK Government.

As a regulated business, we set out our investment plans for consecutive five-year periods to the Civil Aviation Authority ('CAA'), our economic regulator, who determines the regulatory settlement for each period. In the current regulatory settlement period (between 2022 and 2026) we have £250 million of investment in carbon and sustainability improvements in our business plan. This will enable us to deliver the essential projects up to 2026 that will keep us on track to hit our net zero 'In the Air' and 'On the Ground' goals by 2030.

OUR OBJECTIVES, GOALS AND TARGETS

1

OBJECTIVE:

Net zero in the air

GOAL:

Up to **15% cut** in carbon by 2030 compared to 2019

TARGETS:

- Cut up to 1% by 2030 through more efficient operations and modernising airspace.
- Cut up to 8% by 2030 through improvements to conventional aircraft.
- Cut up to 7% by 2030 through use of sustainable aviation fuel.

2

OBJECTIVE:

Net zero on the ground

GOAL:

At least **45% cut** in carbon by 2030 compared to 2019

TARGETS:

- Cut 49% by 2030 from surface access.
- Cut 35% by 2030 from our supply chain.
- Cut 87% by 2030 from airport vehicles.
- Cut 39% by 2030 from buildings and infrastructure.

More detailed information on our carbon objectives, goals and targets is available in our net zero plan at:
www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/Our-Carbon-Strategy

KEY ACHIEVEMENTS AND PERFORMANCE IN 2023

NET ZERO 'IN THE AIR'

Reducing carbon in the air is a key aim. By 2030, our goal is for carbon emissions from flights to fall by up to 15% from peak 2019 levels. Our 2023 emissions were 17.95 million tonnes carbon dioxide equivalent ('$MtCO_2e$'). This is 2.04 million tonnes, or 10%, below the 2019 figure of 19.99 $MtCO_2e$.

Supporting SAF adoption

SAF is a proven technology that reduces lifecycle carbon emissions by replacing the use of fossil fuel. Through our SAF incentive programme, detailed in the case study below, we aim to progressively increase the volume of SAF used by airlines at Heathrow each year, targeting 11% by 2030, ahead of the UK Government's 2025 proposed mandate of 10% by 2030.

To deliver the benefits of SAF, the UK Government must do more to back the technology on our shores or risk watching our competitors in Europe and across the Atlantic reap the benefits. The UK was the first major economy to commit to net zero by 2050, but we need this to become a reality. A price support mechanism combined with the SAF mandate are needed to de-risk and incentivise investment in domestic SAF facilities. A new global SAF industry will be created in the next decade and new green jobs will come into existence. We continue to work with the UK Government to ensure that the UK is well placed to benefit from this development.

SAF is currently the only viable solution for decarbonising long-haul flights by 2050 and is a priority focus for the Jet Zero Council, a group of industry leaders chaired by the Government Secretaries of State for Transport, Energy Security and Net Zero, and Business and Trade. Heathrow has continued its active involvement in the Jet Zero Council throughout 2023, which is led by our Chief Operating Officer, Emma Gilthorpe. Through our membership of the Council, we are advocating for the development of a mandate for the supply of SAF and mechanisms to provide sufficient revenue certainty to enable investment in the UK.

Heathrow has also continued working in partnership with the Sustainable Markets Initiative ('SMI') to encourage corporates to commit to purchase SAF for their business aviation travel.

SAF in action and policy environment

On 28 November 2023, Virgin Atlantic's historic flight powered by 100% SAF took off from Heathrow to New York JFK. The flight marked the world's first commercial 100% SAF powered transatlantic flight, flown on a Boeing 787 using Rolls-Royce Trent 1000 engines. 'Flight100' confirmed SAF is a safe drop-in replacement for fossil derived jet fuel. This ground-breaking step forward, demonstrates the collective determination between Government, industry and academia.

The policy environment in the UK has presented challenges which has seen the UK fall behind, while policy action in the US and EU is creating favourable conditions for a SAF industry to become established. Heathrow supports the UK mandate for 10% SAF by 2030. Further policy is needed to deliver the expected UK mandated requirement, including a less stringent cap on hydroprocessed esters and fatty acids ('HEFA') in the early years and a revenue certainty mechanism to support investment in UK SAF production facilities. The industry continues to campaign through the Rise Coalition for faster progress. The outcome of the Third International Civil Aviation Organisation ('ICAO') Conference on Aviation and Alternative Fuels ('CAAF/3'), held in Dubai in November 2023, is a collective goal to reduce 5% of carbon intensity by 2030 through the use of SAF and lower carbon aviation fuels ('LCAF').

Zero emissions aircraft

The development of hydrogen-fuelled flight is gathering momentum, with expectations of witnessing 50-seaters within this decade and the emergence of 100-plus seaters by the mid-2030s. We are actively embracing this transition, championing research to help avoid airport infrastructure becoming a barrier and ensuring Heathrow plays its role in the evolution of zero carbon emission flight ('ZEF'). In 2023, Heathrow took a prominent role in these efforts through our active involvement in the Liquid Hydrogen Gas Turbine project ('LH2GT'). This initiative, in partnership with Rolls Royce, UCL and EasyJet, is aimed at developing critical technologies for ZEF, focusing on the use of liquid hydrogen in gas turbines. Heathrow's specific contribution lies in addressing the infrastructure challenges associated with transitioning to hydrogen-powered aviation and making airports hydrogen ready.

Additionally, we assumed a leadership role in the Jet Zero Council ZEF Delivery Group Infrastructure Subgroup. Collaborating with key stakeholders in the aviation infrastructure domain, Heathrow is actively engaged in providing answers to pivotal questions surrounding the implementation of hydrogen infrastructure. The activity programme covers the key issues of the development of technology and regulation, as well a focus on the infrastructure requirements to support ZEF at airports and aerodromes.

Our SAF Incentive Programme

In 2022, we launched a first of a kind airport SAF incentive programme which aimed to cover approximately 50% of the cost premium of SAF relative to fossil kerosene, making the fuel more affordable for airlines to use.

Recognising that SAF production can incur higher costs than conventional jet fuel, our programme creates a SAF incentive 'pot'. Airlines that plan to uplift SAF at Heathrow bid to this pot and receive a rebate. This bridges the cost gap between SAF and traditional fuels, making SAF a more accessible and economically viable choice for airlines at Heathrow.

In 2023, the SAF incentive increased to 1.5%. Due to delay in supply, delivery was slightly under this level. However, in 2024, £71 million is available to airlines through the incentive, targeting up to 2.5% of aviation fuel used at Heathrow. If achieved, this will amount to 155,000 tonnes of sustainable aviation fuel.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2023 (CONTINUED)

NET ZERO 'ON THE GROUND'

On the ground, we aim to cut carbon by at least 45% by 2030 compared to 2019 by enabling more passengers and colleagues to access the airport sustainably, supporting a net zero supply chain, replacing airport vehicles with zero carbon alternatives and investing in our buildings and infrastructure. Our 2023 emissions were 0.82 million tonnes carbon dioxide equivalent ('MtCO_2e'). This is two hundred thousand tonnes, or 22%, below the 2019 figure of 1.05 MtCO_2e.

Supply Chain

During 2023 we reviewed and updated our requirements for how our suppliers should operate to cut carbon and the reporting that will enable us to build a more holistic view of further opportunities to reduce emissions.

We have established a 'Supply Chain Centre of Excellence', with representatives from across internal functions at Heathrow to issue guidance and standards to suppliers and project managers. The tools and procedures that were developed included a Life Cycle Assessment template and draft Carbon Standard which are expected to launch in early 2024. These will support internal programmes, as well as Heathrow's supply chain, to report scope 3 emissions and identify opportunities to reduce carbon emissions.

Working with the University of Surrey and Team Heathrow partners, we have continued to research options to use low carbon concretes at Heathrow. In 2023, in partnership with Jacobs, Ecocem, Cemex, Dyer & Butler and Ferrovial Construction, we trialled the use of lower carbon concrete at an airside location. This concrete reduces emissions by 50% compared to conventional alternatives.

Buildings and infrastructure

To achieve our carbon goals, we are making significant changes to our buildings, infrastructure, and operations, and are working with partners at the airport and across our industry. The transition to net zero will reshape the energy mix of the airport and, in 2023, we completed our latest airport energy strategy. The resulting long-term strategic roadmap sets out how we will provide the renewable energy we need when we need it, whilst protecting the resilience of our energy network and maintaining affordability. We have already begun implementing parts of the energy strategy, including working on a design for a new heating and cooling solution for the airport which will replace gas boilers with zero carbon heating technologies. This will enable us to turn off gas for heating our airport by the mid-2030s.

Airport vehicles

Heathrow is aiming to ensure all airport operational vehicles emit zero emissions or use biofuels by 2030. To do this, we will be providing charging capability for vehicles and ground service equipment, and onsite biodiesel supply. In 2023, we delivered three ultra-rapid charging points and two rapid charging points, as the first instalment in an ongoing programme of electric vehicle ('EV') charger installation across the airport.

Electrification of our vehicles in 2023 has continued at pace, with over 50% of Heathrow operated vehicles now electric. The aim is for a fully electric fleet by the end of 2025. The total operational vehicle fleet at the airport, including vehicles from all airport companies, is comprised of almost 20% electric vehicles which we expect to grow strongly each year. Over 90% of Heathrow operated vehicles that use diesel have been switched to biodiesel and following the successful installation of a hydrotreated vegetable oil ('HVO') bulk supply tank, which is a type of biodiesel, British Airways have started to switch their operational vehicle fleet to HVO. We continued to engage and support other Team Heathrow fleets to make the switch.

Adapting our airport to climate effects

Alongside our decarbonisation activities, we are assessing the physical risks that the airport faces from a changing climate, such as extreme rainfall. In 2023, we assessed our existing asset base to build an understanding of our resilience to the climate conditions that are predicted by international and UK climate models. We will further develop this assessment in 2024 by conducting detailed modelling, focusing on potential impacts from extreme rainfall events and extreme wind events. The output from that work will provide a basis to assess where current mitigations should be strengthened. We will also consider the resilience of businesses integral to Heathrow with a focus on critical utilities and surface access.

OUR CARBON FOOTPRINT

We monitor our carbon footprint and report on our greenhouse gas emissions annually. This helps us to identify opportunities to reduce our emissions and assess our progress in delivering our carbon reduction goals.

Our methodology for carbon reporting is informed by the Greenhouse Gas Protocol ('GHGP') and the Airport Carbon Accreditation ('ACA') standards. Our carbon and energy disclosure is in line with the reporting requirements of the Streamlined Energy and Carbon Reporting ('SECR'). It includes emissions from fuel consumption and operational vehicles in scope 1, electricity consumption in scope 2, and aircraft emissions, business travel, travel to and from the airport and infrastructure emissions in scope 3. Each annual carbon footprint includes our baseline year 2019, the current reporting year and two previous years for comparison.

Following the publication of our Net Zero Plan, as part of a refreshed Heathrow 2.0, in February 2022, we have mapped its eight goals to cut carbon 'In the Air' and 'On the Ground' to the GHGP scopes.

Scopes 1 and 2: Accounts for only 0.2% of Heathrow's footprint, including buildings and infrastructure and Heathrow owned vehicles.

Scope 3: Accounts for 99% of Heathrow's total emissions, including aircraft, surface access, supply chain and Team Heathrow vehicles, with aircraft accounting for 95% of total emissions.

Our carbon footprint in 2023 includes two new data sources that were not previously reported and third party assured.

The first new data source is emissions from our supply chain, based on capital spent multiplied by industry specific intensity factors, which are now reported in Heathrow's scope 3. To improve this data source further we are also working on a Balanced Scorecard, to collect actual carbon and other sustainability related data from our strategic suppliers. Bottom-up data from this approach could be used to validate and supplement or replace current intensity factor based data in future years.

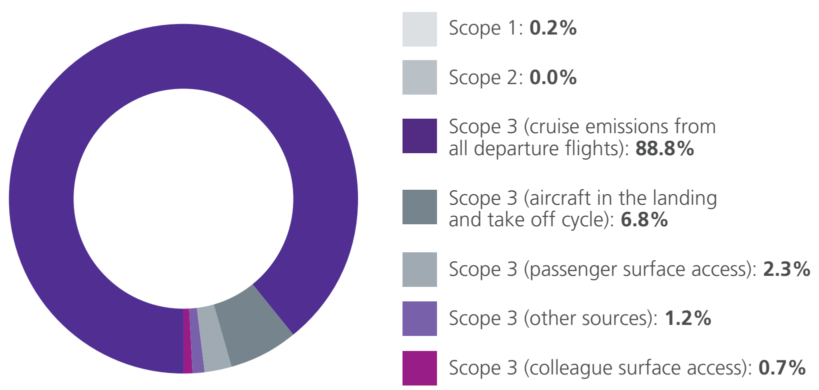
Carbon emission savings from SAF is the second new data source we are including this year for the first time. SAF has been regularly uplifted at Heathrow, since the beginning of 2022, as part of our aeronautical charges incentive scheme. In 2023, the SAF incentive was set to 1.5%, however, we delivered slightly below this level due to delays in supply. The SAF delivered had lifecycle carbon savings of 94.5% on average. There is a lack of guidance from professional bodies and standard setters on how to account for SAF and we therefore disclose the savings associated with the use of SAF over regular jet fuel in our 'Separately from the Scopes' table until further guidance is published.

In addition to the integration of supply chain carbon and SAF, we are continuously improving the quality of all data feeding into the footprint to provide more frequent, accurate and accessible carbon reporting. Bureau Veritas UK Limited has provided independent, limited assurance for Heathrow's GHG emissions data since 2020, covering the period from 1 January 2020 to 31 December 2023.

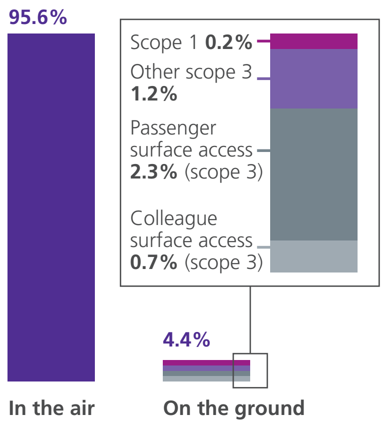
The published methodology document contains information on the context, scope, reporting period and boundaries, calculation and used emissions factors of the 2023 carbon footprint. This includes a list of all emissions by scope with detailed information on data sources and core assumptions used for calculation. The 2023 Sustainability Report, including the assurance statement and the carbon footprint methodology, can be found on our website on the link below.

More detailed information can be found at **www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/reports-and-futher-reading**

Breakdown by Scopes



Breakdown by 'In the air' and 'On the ground'



OUR CARBON FOOTPRINT (CONTINUED)

Net Zero Plan		Emission source		Greenhouse gas emissions			
Objective	**Goal**	**Greenhouse Gas Protocol**	**Airport Carbon Accreditation**	**2019**	**2021**	**2022**	**2023**
Net zero on the ground		**Scope 1** (tonnes CO_2e)		**26,998**	**29,091**	**29,806**	**32,116**
	8	Company facilities	Fuel consumption utilities – Market based – Location based	 21,942 24,335	 23,525 23,525	 21,867 21,867	 22,588 25,326
	7		Operational vehicles and equipment	1,668	1,023	791	622
	8		LPG for fire training	35	-	-	1
	8		Refrigerants	2,871	2,968	6,671	8,695
	6		De-icer	482	1,575	477	210
		Scope 2 (tonnes CO_2e)		-	-	-	-
	8	Purchased electricity, steam, heating and cooling for own use	Grid electricity consumption – Market based – Location based	 - 71,163	 - 49,066	 - 52,717	 - 56,134
		Scope 3 (tonnes CO_2e)		**21,012,356**	**8,221,882**	**14,908,385**	**18,742,184**
	5	Downstream transportation and distribution	Passenger surface access	632,348	130,699	361,856	436,100
		Employee commuting	Colleague surface access	115,531	78,537	89,034	125,133
	6	Business travel	Business travel	1,070	28	420	1,133
		Waste generated in operations	Waste	563	176	385	502
		Purchased goods and services	Water	2,068	434	482	648
	1	Use of sold products	De-icer	4,584	3,267	3,473	3,167
	6	Purchased goods and services	Supply chain	229,606	96,395	174,145	198,440
	7	Upstream transportation and distribution	Operational vehicles & equipment	33,015	12,204	15,768	26,808
	6		Construction vehicle fuels	-	1,299	1,122	1,763
	8	Downstream leased asset (Third party electricity) Use of sold products (PCA & FEGP)	Third party grid electricity consumption – Market based – Location based	 146 43,706	 69 23,785	 - 24,956	 - 28,630
		Downstream leased asset	Fuel consumption utilities	272	173	155	69
Net zero in the air	1 to 4	Use of sold products	Aircraft in the LTO cycle	1,250,648	505,552	985,506	1,267,909
			Cruise emissions from all departure flights	18,742,505	7,393,049	13,276,039	16,680,512
Total Footprint (tonnes CO_2e)				**21,039,354**	**8,250,973**	**14,938,191**	**18,774,300**

Supporting notes:
We continue to apply the same footprint boundaries to reflect our operational control both at the airport and offsite – including our business parking Pod' test track and Business Support Centre ('BSC').

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

Scope 2 – All indirect GHG emissions from the electricity purchased for the organisation's owned and operated activities. Scope 2 market-based emissions are zero as our electricity is sourced using a Renewable Energy Guarantee of Origin ('REGO') backed contract. The REGO certificate covers Heathrow Airport Limited, our parking-pod test track and the BSC in Glasgow, all of which fall under scope 2 electricity.

Energy related emissions:

- Market-based grid electricity and utilities consumption: market-based emissions have been used to calculate total emissions. Carbon intensity metrics, including scope 2, only include market-based scope 2 emissions. In order to ensure like-for-like comparisons in these scenarios, market-based Scope 1 emissions have also been calculated by removing the carbon reductions generated by purchase of green gas from the market.
- Location-based grid electricity and utilities: location-based emissions are based on the emissions intensity of the grid and natural gas and do not take into account the procurement of renewable energy and green gas from the market, hence are not counted in Heathrow's total emissions.
- All scope 1 and 2 emissions are UK based.

Scope 3 – All other indirect GHG emissions from activities in relation to Heathrow Airport, occurring from sources that we do not own or control. We know that getting our own house in order is only the first step and that we must support decarbonisation across the whole industry, including flights.

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

Separately from the Scopes		Greenhouse gas emissions (tonnes CO_2e)			
		2019	2021	2022	2023
Sustainable Aviation Fuel ('SAF')	Savings from SAF on WTT			(100,946)	(279,163)
Well to Tank ('WTT') and Transmission & Distribution ('T&D')	WTT and T&D: Electricity	27,426	20,648	20,276	20,414
	WTT: Aviation	4,139,566	1,635,181	2,952,203	3,733,589
	WTT: Utilities Fuel Consumption	3,950	4,155	8,040	5,577
	WTT: Vehicles	8,200	3,487	4,389	7,453
	WTT: Surface Access	182,957	54,053	118,275	146,205
	Total scope 3 WTT and T&D	**4,362,099**	**1,717,524**	**3,103,183**	**3,913,238**
Total Footprint including WTT, T&D and SAF (tonnes CO_2e)		**25,401,453**	**9,968,497**	**17,940,428**	**22,408,375**

Energy		Energy (MWh)			
		2019	2021	2022	2023
Scope 1	Fuel consumption utilities	134,289	125,326	268,499	176,633
	Operational vehicles and equipment	6,732	5,324	4,867	4,988
	LPG for fire training	5	-	-	3
Scope 2	Grid electricity consumption	283,229	231,082	272,610	271,080

Carbon Intensity Metrics		Carbon Intensity (kg CO_2e/passenger)			
		2019	2021	2022	2023
Greenhouse Gas Protocol	Scope 1 and 2 carbon intensity	0.3	1.5	0.5	0.4
	Scope 3 carbon intensity	259.7	423.8	242.0	236.6
	All scopes carbon intensity	260.0	425.3	242.5	237.0
Net Zero Plan	'On the Ground' carbon intensity *Scope 1, 2 and 3 excluding aircraft emissions*	12.9	18.2	11.0	10.4
	'In the Air' carbon intensity *Scope 3 aircraft emissions only*	247.1	407.1	231.5	226.6

A GREAT PLACE TO LIVE AND WORK

With 76,000 airport colleagues, including Team Heathrow, and 79 million passengers Heathrow is like a small city. Our scale means that we have significant impacts, both positive and negative, on the colleagues who work at the airport and on the local communities that are our closest neighbours.

Operating one of the world's busiest hub airports impacts the environment and people. The great place to live and work pillar of Heathrow 2.0 brings together the critical environmental and community issues where Heathrow needs to make a difference. In it, we have set out the objectives, goals and targets that we are working towards achieving by 2030.

Heathrow's scale means it remains critical that we are a diverse and inclusive workplace for all, and that we provide the skills, education and long-term employment opportunities that make the airport the local employer of choice. We must also be a valuable neighbour for those who live closest to us, making sure these communities benefit from cleaner air, quieter nights and improved quality of life. Managing the air quality, noise and natural resource impacts of the airport remain equally critical.

In 2023, we have accelerated our progress across the range of issues within the great place to live and work pillar. Across our objectives we have delivered tangible progress to mitigate, where possible, the environmental impacts of the airport, while ensuring that the benefits of being located near Heathrow are enhanced for our local communities. In some areas we have launched and embedded new approaches, for example through our Surface Access Strategy and our Giving Back Programme. In others we have spent time developing new plans, for example our new Noise Action Plan 2024-28 and our Nature Positive Plan.

Achieving this progress has come with challenges. Heathrow has a wide range of stakeholders, with a rich diversity of points of view, so it is important that we continue to work collaboratively with our partners, listen to what is most important to them and ensure that we prioritise acting on the issues where we, as the airport operator, can make the biggest difference.

OUR OBJECTIVES, GOALS AND TARGETS

3

OBJECTIVE:

Clean air at and around the airport

GOAL:

Reduce NOx airside by **18%** compared to 2019

TARGETS:

- At least 45% passengers using public transport and no more than 57% colleague single occupancy vehicle trip mode share by 2026.
- By 2026 increase the number of people located within 1.5 hours of Heathrow by public transport by 25%, and within 3 hours by 12%.
- Airside ULEZ by 2025 and all airport vehicles zero emission or using biofuels by 2030.

4

OBJECTIVE:

Quieter nights, quieter flights

GOAL:

Limit and where possible reduce the number of people highly sleep disturbed and highly annoyed compared to 2019

TARGETS:

- Reduce noise contour areas compared to 2019 by incentivising the use of Chapter 14 aircraft and operational improvements consistent with the ICAO Balanced Approach.
- Introduce easterly alternation by 2028.
- Protected period of the core night by 2025 (no flights except dispensed operations between 00:00 and 04:30) and increase nights without aircraft post 23:45 compared to 2019 levels.

5
OBJECTIVE:
Nature positive airport

GOAL:
Work with partners to support a nature network around Heathrow

TARGETS:
- Develop a Nature Positive plan for Heathrow.
- Retain Biodiversity Benchmark Award.
- Maximise de-icer recovery through our Clean Water Programme.

6
OBJECTIVE:
Zero waste airport

GOAL:
Maximise reuse, recycling and recovery of materials used at Heathrow

TARGETS:
- Reduce total waste generated compared to 2019.
- Reduce water leakage by 15% compared to 2019.

7
OBJECTIVE:
Thriving sustainable supply chain

GOAL:
Maximise suppliers achieving gold standard against our Balanced Scorecard

TARGETS:
- Deliver business opportunities at Heathrow by growing the proportion of SMEs in our supply chain (from 40%) and the proportion of local SMEs (from 50%).
- Switch on CompeteFor in 2022.

8
OBJECTIVE:
Better quality of life in Heathrow's neighbouring communities

GOAL:
Give back to 1 million people in our local communities

TARGETS:
- Publish a new Giving Back Programme.
- At least £6.5 million funds generated for the Heathrow Community Trust by 2030.

9
OBJECTIVE:
Inclusive employer of choice for local diverse talent

GOAL:
Reflect the diversity of our local community at all levels

TARGETS:
- At least 43% female colleagues at senior levels by 2026.
- At least 27% Black, Asian and Minority Ethnic colleagues at senior levels by 2026.

GOAL:
10,000 external jobs, apprenticeships and early career opportunities

TARGETS:
- 15,000 experience of work days by 2030.
- Schools programmes available every year to children in all local boroughs.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2023

CLEAN AIR AT AND AROUND THE AIRPORT

Local air quality and its effects on health are critical issues for our colleagues and for communities around the airport. Many of the activities that will contribute to delivery of net zero on the ground will also have a positive impact on air quality.

Heathrow continued to monitor air quality throughout 2023, with the full set of air quality data for the year expected to be available at the end of the first quarter of 2024, when the associated verification process is completed.

Heathrow has played a significant role in advancing research on ultrafine particles ('UFPs') by funding a PhD on this subject. It currently operates one of only five UFP monitoring stations in the UK. Through collaboration with Sustainable Aviation ('SA'), we are working to expand research cooperation across multiple airports. The airport remains committed to supporting research in this novel area.

In the summer of 2023, the Council for the Independent Scrutiny of Heathrow Airport ('CISHA') conducted a community research project aimed at understanding local communities' perspectives on air quality in the area. The published results provided insights into the current understanding and perception of air quality by local communities, along with five recommendations:

- Building evidence on the impact of air pollution around Heathrow Airport on public health.
- Expanding the monitoring infrastructure around Heathrow Airport.
- Improving the way Heathrow Airport displays air quality data and information.
- Setting air quality targets and expectations for airlines and other airport suppliers.
- Introducing independent oversight over Heathrow Airport's air quality targets.

The receipt of independent feedback representing views from the community will contribute to improving the current strategy and plans. These findings will inform ongoing efforts through Heathrow 2.0 to deliver clean air at and around Heathrow Airport.

SURFACE ACCESS

Surface access refers to how stakeholders such as colleagues, passengers and goods move to and from Heathrow, emphasising its importance as a UK hub. Focusing on how to do this, to ensure a smooth transition to low emission travel, is a key aim of Heathrow 2.0. 2023 has been a pivotal year for implementation of the Surface Access Strategy with the opening of the Elizabeth Line as a new transport link to central London and Essex. 43% of passengers now travel by sustainable public transport to and from the airport and the extension of the Elizabeth line has helped to strengthen these figures (2022: 38%).

In addition to the Elizabeth Line, we have continued to invest in the Sustainable Travel Zone ('STZ') which supports sustainable colleague travel to work and provides enhanced travel options to local communities. With London's Ultra Low Emission Zone ('ULEZ') introduced in 2023, Heathrow launched a package of measures to help those affected by the new regulation.

The ULEZ 'Way to Go' guide helps colleagues search their options to avoid ULEZ charges if they apply. This includes a Sustainable Travel Zone Guide which helps people to find the most efficient public transport routes near them, free campus travel, cycle routes and car-sharing schemes as well as the launch of the HAL Car Loan and Green Car schemes. Other measures include 50% discount for Heathrow colleagues using the Elizabeth line.

All these factors mean a significant uptick in public transport at Heathrow as shown by performance indicators and we are confident that we are on track to meet the 2026 target.

PERFORMANCE INDICATOR

Public transport mode share

Target	**45% by 2026**
2023	**43%**
2022	38%
2021	33%

QUIETER NIGHTS, QUIETER FLIGHTS

We acknowledge that noise and its management must be a priority for Heathrow and we have a long-established strategy to manage noise through our Noise Action Plan ('NAP'). Our most recent NAP ran from 2019 to 2023 and in 2022 we started the drafting process for the next round of action planning (2024 to 2028), which was submitted to the Department for Environment, Food and Rural Affairs ('Defra') in September 2023 for adoption. The plan has now been approved and is on our website.

In 2023, we refined this plan, including a public consultation with 800 responses and it provides detail on how we will manage, and where possible reduce, the impact of aircraft noise in the period 2024 to 2028. Doing so will support us to achieve the 2030 goals and targets set out in Heathrow 2.0.

For more information on our Noise Action Plan see
www.heathrow.com/company/local-community/noise/making-heathrow-quieter

We have set targets for 2024 to 2028 across the following areas:

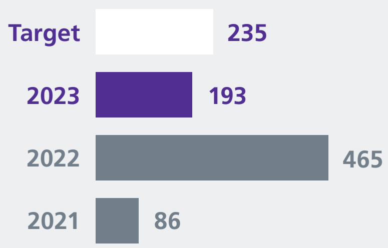
- On-going modernisation of the fleet and incentives to use aircraft with the newest noise reduction technologies.
- Investigation and appropriate implementation of effective noise abatement procedures for both the airport and airlines.
- Airspace design and management to minimise adverse noise impacts and, where appropriate, to maximise respite for residents.
- Provision of a comprehensive noise insulation scheme for the most affected houses and schools.
- Continual improvement of voluntary measures especially for reducing the impacts of night operations.
- Enhanced monitoring, reporting and management of all noise sources from ground and air operations.
- Clear and transparent engagement with community groups and industry stakeholders to achieve collaborative and beneficial improvements.
- Promotion of a research agenda that enhances our understanding of the impacts of aviation and the effectiveness of the interventions used to reduce noise impacts.

In 2023, we introduced an updated comprehensive noise insulation scheme for the most affected houses and schools. We have completed a review of residents that are eligible under new schemes in 2024, appointing new suppliers and a Prioritisation Panel, an independent group with the remit of advising Heathrow on priorities in the phasing of spatial areas for noise insulation scheme implementation. It is made up of a small number of people from community stakeholders.

We are committed to minimising the impact of noise at night on communities that are overflown. In 2023, there were a total of 193 late running departing aircraft against a target of no more than 235. We are pleased to have improved significantly on 2022 performance despite challenging operating conditions at various times.

PERFORMANCE INDICATOR

Late running aircraft



NATURE POSITIVE AIRPORT

We rely on nature for resources and essential mechanisms such as clean air, clean water, and food crop pollination. Protecting nature is also a key tool in slowing the rate of climate change and helping wildlife, people and communities to adapt to it.

In 2023 we focused on our approach to mitigating and enhancing Heathrow's impacts on nature by developing our Nature Positive Plan, to be published later in 2024. The Nature Positive Plan will consider the airport's key touch points with nature. It builds on our history of biodiversity management to set commitments over the way we will manage our impacts at the airport, around the airport and on national and global scales.

It is also aligned with emerging frameworks such as the Taskforce on Nature-related Financial Disclosures ('TNFD'). Heathrow announced in January 2024, that it would be an early adopter when reporting against the TNFD.

In October, it was confirmed that Heathrow has successfully retained the Wildlife Trust's Biodiversity Benchmark Award for the fifteenth year running, recognising our continued commitment to biodiversity and nature. We also celebrated passing a milestone as 4,000 species have now been identified on Heathrow's biodiversity sites.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2023 (CONTINUED)

ZERO WASTE AIRPORT

Heathrow's size and scale create unique challenges for resource efficiency. The airport is akin to a small city, so when looking to manage and reduce waste, it is imperative that we work with our partners and take a whole system approach. In 2023, we focused on developing Heathrow's airport strategy to minimise waste, with a formal plan to be launched later in 2024.

During 2023, the Waste Working Group looked at how to reduce waste in three core areas – commercial, retail and operations. A major part of this has been working with Grundon, our waste service provider, which has its own Material Recovery Facilities ('MRF') and Energy from Waste ('EfW') plant in Colnbrook near the airport. All waste is sorted and separated for recovery and recycling at the MRF, and the EfW facility feeds straight into the grid with ash going to construction. We continue to send zero waste to landfill, waste that cannot be recycled goes to the EfW plant for incineration to produce electricity.

Training and engagement for all stakeholders, including colleagues, has also been a central part of our approach to reducing waste. As part of our partnership with Grundon, we offer 'Insights' which allows Heathrow and Team Heathrow colleagues to book a tour and see what happens with the waste from all parts of the airport. We also work with our retail partners to train and educate on waste management and in 2023 we produced 'Terminal Waste Handling Guides'.

Total waste at the airport reduced to 21,686 tonnes, from 23,934 tonnes in 2019.

THRIVING SUSTAINABLE SUPPLY CHAIN

With thousands of companies operating from or supplying goods and services to Heathrow, our influence stretches far beyond our boundary. A key area of focus is on supporting small and medium-sized enterprises ('SMEs') across the UK to do business with Heathrow.

To ensure that our strategic suppliers are supporting delivery of our sustainability objectives, in 2023 we launched our Balanced Scorecard to clearly communicate priorities and standards to our strategic suppliers. This helps us collect baseline data and set targets on various sustainability issues. We can then monitor and engage with our supply chain on these issues. The Balanced Scorecard focuses on a number of key areas including net zero, social value, community local innovation and growth.

The 25th Heathrow Business Summit was held on 16 November 2023 and attended by over 450 guests and over 45 exhibitors. The event aimed to connect local SMEs with Heathrow's key suppliers and identify tangible opportunities to do business in the future.

BETTER QUALITY OF LIFE IN HEATHROW'S NEIGHBOURING COMMUNITIES

In January 2023, we launched our Giving Back Programme which outlines how we will reach our commitment to benefit a million local people by 2030. This will be achieved through eight community investment initiatives to connect our community to the opportunities they need and want. This will bring both new investments and a strengthening of our existing initiatives to build on the valuable work we have already done.

In 2023, over 1,095 Heathrow colleagues participated in the Giving Back Programme by volunteering over 3,844 hours of their time to support local schools, education partners and community groups.

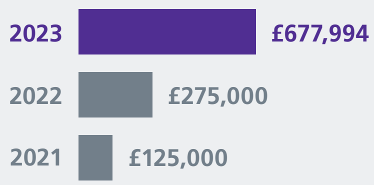
A major project launched in 2023 includes a new conservation and outreach project with British Airways and London Wildlife Trust funding 'Connecting with Nature in Hillingdon', with the aim of improving vital local habitats.

A key part of the Giving Back Programme is our long-standing partnership with the Heathrow Community Trust ('HCT'). HCT is an independently run grant-making charity that funds projects that improve quality of life for communities near the airport. In 2023, HCT supported a wide range of community projects and organisations, helping young people to raise their aspirations, bring communities together and enhance local environments. Heathrow supports the HCT through direct donations, funding leveraged from colleagues and passenger fundraising and funding levied from noise fines.

In 2023 Heathrow's total contribution was £1,051,101 (2022: £545,000). We donated £677,994 (2022: £275,000) and a further £373,107 (2022: £270,000) was leveraged from colleague and passenger fundraising and levied from noise fines.

PERFORMANCE INDICATOR

Heathrow donation to Heathrow Community Trust



INCLUSIVE EMPLOYER OF CHOICE FOR LOCAL DIVERSE TALENT

At Heathrow, we believe that embracing diversity and inclusion is not just the right thing to do, it's essential to our success. As a gateway to Britain, we serve millions of passengers from around the world, and our workforce reflects the richness of that diversity. Providing good quality opportunities for local people to develop careers at Heathrow is also a priority. We want to connect residents to the world of work at Heathrow and build a diverse pipeline of skills by engaging local young people in education.

PAULA STANNETT
Chief People Officer

In 2023, we continued to deliver our Equality, Diversity and Inclusion ('ED&I') strategy through initiatives including dedicated learning intervention and our established mentoring platform. We also launched a colleague-facing campaign focused on the concept of belonging and encouraged a diverse range of colleagues to share positive stories around the inclusive culture at Heathrow. Our colleague engagement survey showed a six per cent year on year increase in people feeling that Heathrow is inclusive to all (November 2022 to November 2023 Pulse survey).

We have a range of established ED&I colleague networks focused on gender, ethnicity, LGBTQI+ and disability. In 2023, we launched a new network to support colleagues with parental and caring responsibilities. All five networks use their platforms to promote an inclusive culture through online and in-person events, webinars and campaigns.

Our 2023 Pay Gap data shows positive progress: both gender and ethnicity gaps narrowed, while female and Black, Asian and minority ethnic representation in senior roles and management increased. Despite this, we acknowledge there is more to do to accelerate progress for colleagues from ethnic backgrounds and fully close the ethnicity pay gap.

Heathrow's organisational headcount has grown by almost 50% in the past two years, presenting a unique opportunity for the airport to create employment for our local communities. Heathrow was announced as the 46th best UK employer by Glassdoor, in a year that also saw the launch of the 'No Place Like Heathrow' campaign. This campaign showcased the buzz of Heathrow and variety of career opportunities on offer, with messaging being shared with the local community via buses, underground stations, local radio, newspapers and social media.

We have delivered and supported over 3,117 (2022: 2,746) employment opportunities in 2023. These opportunities represent a significant achievement towards our longer-term goal of 10,000 opportunities and have been driven by the recovery of the aviation sector, and the corresponding high levels of recruitment.

The Heathrow World of Work programme delivered 5,340 (2022: 3,031) experience of workdays to local young people from primary school age to university, aged 16 to 19. The majority of the experience of workdays were delivered through our Virtual Work Experience programme with local schools and colleges.

Goals	Targets (by 2030)		Performance 2023	2022	2021
Reflect the diversity of the local community at every level for female colleagues	**49%** Female representation at each level[1]	Senior managers	**39.8%**	**39.5%**	**37.1%**
		All colleagues	**41.4%**	**41.3%**	**40.8%**
Reflect the diversity of the local community at every level for Black, Asian and Minority Ethnic colleagues	**39.9%** Black, Asian and Minority Ethnic representation at each level[2]	Senior managers	**20.1%**	**18.3%**	**17.1%**
		All colleagues	**54.3%**	**48.1%**	**46.0%**
Create an inclusive culture where colleagues feel confident in recording and sharing their diversity data	**100%** Disclosure rates (including prefer not to say) for: Gender, Disability, Ethnicity and Sexual orientation	Gender	**98.7%**	**99.9%**	**99.8%**
		Disability	**50.8%**	**37.8%**	**21.7%**
		Ethnicity	**93.9%**	**96.9%**	**97.7%**
		Sexual orientation	**56.1%**	**43.7%**	**26.0%**

[1] For gender there is no 'prefer not to say' option, the categorisations are Male, Female or blank. The Female percentage metric is calculated as the number of females divided by male and female additions, with the blank categorisation excluded from the calculation.
[2] For ethnicity, there is a 'prefer not to say' option and this is included in the calculation.

EXPANSION

The recovery from the pandemic has strengthened the strategic case for expansion. We have seen how an island trading nation relies upon airlinks economically and socially. The hub model has been strengthened, with airlines consolidating operations into Heathrow. Nevertheless, there is excess pent-up demand for connections to Heathrow that cannot be fulfilled due to a lack of slot capacity at the airport. This has led to Heathrow losing some of those connections (including a number of new routes to India) limiting the benefits for consumers and UK business of greater competition and choice.

As the UK's largest port by value, we understand the critical role of air cargo, the majority of which is carried in the hold of passenger aircraft at Heathrow, in supporting UK exports, manufacturing and business supply chains. To do this, in partnership with our cargo community, we have developed a cargo strategy to grow Heathrow's cargo proposition safely, securely, sustainably, and efficiently, meeting the practical needs of UK businesses. It is critically important that we ensure that the UK's trade routes are kept open across the globe with the ability to grow them further to meet increasing year on year demand. A new runway would enable the strengthening of our ability to meet the demand for UK exports.

CONNECTING ALL OF THE UK TO GLOBAL GROWTH

Expanding Heathrow will add more long-haul and short-haul routes to help drive direct investment and tourism across the UK, as well as opening up new markets for our goods and services. For passengers, a third runway will bring new destinations, more choice and lower prices through an increase in competition between airlines. For business people, students and tourists visiting the UK, it would make it easier to reach our shores. For businesses, the additional cargo capacity afforded by new routes will enable new trading opportunities. Heathrow is an economic catalyst, with many businesses choosing to base themselves in the UK because of the ease of connections from Heathrow.

Heathrow is not only the UK's global gateway, it is the country's biggest port by value. Anything high value, time critical or with a short shelf life goes on an aircraft. Long haul passenger flights from Heathrow carry 45% of the UK's non-EU exports. Last year alone, Heathrow helped facilitate around 26% of the UK's total exports by value and accounted for 75% of total UK air cargo exports by value.

As the global economy increases, British businesses will need more trading routes with Asia Pacific, Africa and the Americas, which will mean more long-haul flights. Without more runway capacity at Heathrow, Britain will become increasingly dependent on EU hubs to access long-haul markets, which puts the UK at a competitive disadvantage, and potentially puts trade routes at risk if those countries close their borders, as happened during the pandemic. Expanded capacity and cargo facilities at Heathrow would better connect British exporters to global markets and make it easier for investors to come to the UK.

POLICY AND REGULATORY SUPPORT

The policy and regulatory frameworks required to expand Heathrow remain in place. In December 2020, the Supreme Court unanimously ruled that the policy framework governing expansion – the Airports National Policy Statement ('ANPS') – is lawful UK Government policy. On 26 May 2022, the Department for Transport published a policy paper, 'Flightpath to the future: a strategic framework for the aviation sector', in which it reaffirmed that the ANPS continues to have full effect and that the UK Government remains supportive of airport expansion where it can be delivered within environmental obligations. This was reiterated with the publication of the Jet Zero Strategy on 19 July 2022 where the ANPS was again stated as having 'full effect'.

Demand for aviation has recovered from COVID-19 and the additional capacity at an expanded Heathrow will allow the UK, as a sovereign nation, to compete more effectively. Expansion would help the Government's ambitions for a levelled up and Global Britain to become a reality. By expanding Heathrow, the UK's only hub airport, we would be able to connect all of UK to global growth markets, creating hundreds of thousands of jobs in every nation and region of the country, deliver private investment in critical national infrastructure, and give Britain a competitive advantage over our EU rivals.

THE BUSINESS CASE

Heathrow accommodated near pre-pandemic passenger levels in 2023 following a successful recovery. We know there is strong demand to travel. Our 2024 passenger forecast indicates the coming year is set to be the busiest on record at 81.4 million passengers with Heathrow once again approaching operational capacity.

Long-term passenger forecasts are continually reviewed by management and the Board, which still support the fact that expansion would be affordable and financeable. This explains why, following Board approval as well as in consultation with our airline community and the CAA, we reopened our Interim Property Hardship Scheme in May 2021 and continue to engage with our local communities.

In order to obtain planning consent for the third runway, we will have to demonstrate that expanding Heathrow is compatible with the UK's climate change obligations, including the Paris Climate Agreement. The Government made decarbonising aviation a central part of its green growth agenda, publishing its Jet Zero Strategy in July 2022, through accelerating the use of sustainable aviation fuel and new technology. Our scenario analysis that feeds into our long-term forecast is discussed in the Climate-related Disclosure from page 74. We have an ambition to make 2019 the peak year for carbon emissions at Heathrow and a plan to get to net zero aviation by 2050. Please see page 38 for our Net Zero Aviation section.

RECOVERABILITY OF EXISTING EXPANSION-RELATED ASSETS

As at 31 December 2023, £506 million of expansion-related assets in the course of construction, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission, are recognised on the balance sheet. In addition, there are £111 million of investment properties representing properties purchased within the footprint of a third runway. Refer to page 177 for the critical accounting judgements that management has applied in recognising these assets.

Management has carefully considered the risks to expansion, particularly future passenger demand in addition to climate change risk on long-term passenger numbers, the legislative and regulatory environment, and any likely financeability risks. We continue to consider that expansion is probable. Management will continue to test this judgement as we formalise next steps with investors, Government, airline customers, local communities and regulators.

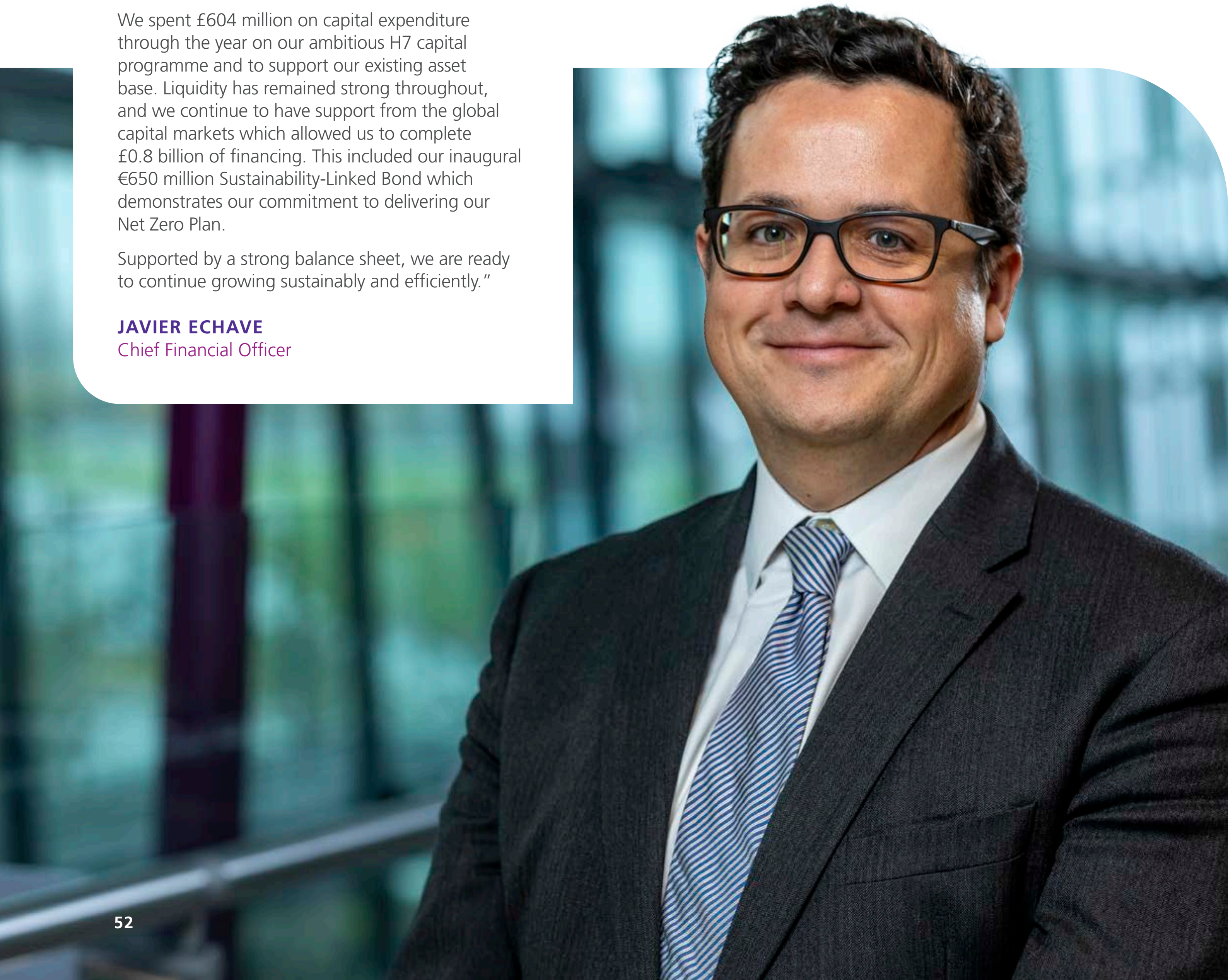
FINANCIAL REVIEW

A strong recovery in passenger numbers led to a 27% increase in revenue, to £3.6 billion, and a 35% increase in Adjusted EBITDA, to £2.2 billion.

We spent £604 million on capital expenditure through the year on our ambitious H7 capital programme and to support our existing asset base. Liquidity has remained strong throughout, and we continue to have support from the global capital markets which allowed us to complete £0.8 billion of financing. This included our inaugural €650 million Sustainability-Linked Bond which demonstrates our commitment to delivering our Net Zero Plan.

Supported by a strong balance sheet, we are ready to continue growing sustainably and efficiently."

JAVIER ECHAVE
Chief Financial Officer



Year ended 31 December	2023 £m	2022 £m
Revenue[1]	**3,602**	2,838
Adjusted operating costs[2]	**(1,449)**	(1,242)
Adjusted EBITDA[3]	**2,153**	1,596
Depreciation and amortisation	**(687)**	(729)
Adjusted operating profit[4]	**1,466**	867
Net finance costs before certain re-measurements and exceptional items	**(981)**	(1,157)
Adjusted profit/(loss) before tax[5]	**485**	(290)
Tax (charge)/credit on profit/(loss) before certain re-measurements and exceptional items	**(162)**	21
Adjusted profit/(loss) after tax[5]	**323**	(269)
Including certain re-measurements[6] and exceptional items:		
Fair value gain/(loss) on investment properties	**209**	(69)
Fair value gain on financial instruments	**373**	929
Exceptional items	**-**	14
Tax charge on certain re-measurements and exceptional items	**(126)**	(203)
Change in tax rate	**-**	6
Profit after tax	**779**	408

[1] Revenue does not contain any adjustments for non-GAAP items.
[2] Adjusted operating costs exclude depreciation, amortisation, fair value adjustments on investment properties and exceptional items which are explained further in note 3.
[3] Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation, fair value adjustments on investment properties and exceptional items.
[4] Adjusted operating profit excludes fair value adjustments on investment properties and exceptional items.
[5] Adjusted profit/(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 rate change.
[6] 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 Limited (the ‘Company’) has prepared its financial statements and financial review in accordance with FRS 102.

The financial information presented within these financial statements has been prepared on a going concern basis. More detail can be found in the going concern statement on page 163.

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. A reconciliation of our APMs has been included from page 209.

SUMMARY PERFORMANCE

For the year ended 31 December 2023, the Group’s revenue increased by 26.9% to £3,602 million (2022: £2,838 million). Adjusted EBITDA increased 34.9% to £2,153 million (2022: £1,596 million). The Company recorded a £779 million profit after tax (2022: £408 million).

Revenue

For the year ended 31 December 2023, revenue increased to £3,602 million (2022: £2,838 million), a 26.9% increase compared to 2022.

Year ended 31 December	2023 £m	2022 £m	Var %
Aeronautical	**2,473**	1,879	31.6
Retail	**698**	564	23.8
Other	**431**	395	9.1
Total revenue[1]	**3,602**	2,838	26.9

[1] Revenue does not contain any adjustments for non-GAAP items.

Aeronautical revenue increased by 31.6%. This is predominantly due to higher passenger numbers and the increase in aero charges. Our aeronautical yield per passenger was £31.25 (2022: £30.50), consistent with price caps set by the CAA for 2023.

Retail revenue

Year ended 31 December	2023 £m	2022 £m	Var %
Retail concessions	**257**	206	24.8
Catering	**83**	59	40.7
Other retail	**64**	54	18.5
Car parking	**170**	143	18.9
Other services	**124**	102	21.6
Total retail revenue	**698**	564	23.8

Airport retail revenue increased by 23.8%, driven by higher departing passengers, car parking revenue, terminal drop off, premium passenger services and the mix of retail services available in 2023. Income per passenger decreased 3.8% to £8.81 (2022: £9.16), as passengers increased their usage of public transport post-pandemic and following the opening of the Elizabeth Line.

Other revenue

Year ended 31 December	2023 £m	2022 £m	Var %
Other regulated charges	**240**	247	(2.8)
Track access charges	**29**	2	1350.0
Property and other	**162**	146	11.0
Total other revenue	**431**	395	9.1

Other revenue increased by 9.1%, driven by increased track access charges and an increase in property revenue following renewals of terminal facility leases on improved terms, as well as new lets.

Adjusted operating costs

Adjusted operating costs increased 16.7% to £1,449 million (2022: £1,242 million).

Year ended 31 December	2023 £m	2022 £m	Var %
Employment	**424**	371	14.3
Operational	**411**	343	19.8
Maintenance	**211**	176	19.9
Rates	**111**	114	(2.6)
Utilities and other	**292**	238	22.3
Adjusted operating costs[1]	**1,449**	1,242	16.7

[1] Unadjusted operating costs were £1,927 million (2022: £2,026million). These included depreciation and amortisation of £687 million (2022: £729 million), fair value gain on investment properties of £209 million (2022: £69 million loss) and in 2022 an exceptional gain of £14 million.

Employment costs have increased in line with rebuilding capacity for higher passenger numbers. This includes costs associated with additional colleagues, overtime, recruitment, and training. The rise in operational costs is mainly due to third-party resourcing, supporting operational resilience, and 'Measure, Target, Incentive' rebates incurred (previously known as Service Quality Rebates). The increase in maintenance is largely driven by terminal cleaning and conservation of terminal, airside, and baggage areas. Finally, utilities and other costs have been impacted by higher consumption and higher energy prices. Adjusted operating costs per passenger decreased by 10.2% to £18.30 (2022: £20.16) given the large increase in passenger numbers over the year.

Operating profit and Adjusted EBITDA

For the year ended 31 December 2023, the Group recorded an operating profit of £1,675 million (2022: £812 million). The increase in operating profit was mainly driven by higher revenue.

Adjusted EBITDA was £2,153 million (2022: £1,596 million), resulting in an Adjusted EBITDA margin of 59.8% (2022: 56.2%).

Year ended 31 December	2023 £m	2022 £m
Operating profit	**1,675**	812
Depreciation and amortisation	**687**	729
EBITDA	**2,362**	1,541
Exclude: Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Adjusted EBITDA	**2,153**	1,596

Profit after tax

For the year ended 31 December 2023, the Group recorded a profit before tax of £1,067 million (2022: £584 million) and a profit after tax of £779 million (2022: £408 million).

Year ended 31 December	2023 £m	2022 £m
Operating profit	**1,675**	812
Net finance costs before certain re-measurements	**(981)**	(1,157)
Fair value gain on financial instruments	**373**	929
Profit before tax	**1,067**	584
Taxation charge	**(288)**	(176)
Profit after tax	**779**	408

Net finance costs before certain re-measurements decreased to £981 million (2022: £1,157 million) primarily as a result of a significant year on year decrease in RPI from 14% to 5.3%, reducing accretion expenses. This was partially offset by a higher swap interest expense, following the end of the benefit received from the swap reprofiling programme put in place to manage cash flows and covenant compliance through the pandemic.

Non-cash fair value gains on financial instruments of £373 million (2022: £929 million) follows a smaller reduction in index-linked swap liabilities than in the prior year. The liability is measured with reference to market expectations of inflation and interest rates, and inflation forwards decreased by an average of 69bps, and interest rate forwards decreased by an average of 45bps in the year.

Taxation

The total Group tax charge for the year was £288 million (2022: £176 million), resulting in an effective tax rate of 27.0% (2022: 30.1%). This is made up of:

- A tax charge on profits before certain re-measurements of £162 million (2022: £21 million tax credit) equating to an effective tax rate before certain re-measurements of 33.4% (2022: 7.2%). The tax charge is significantly higher (2022: lower) than implied by the statutory rate of 23.5% (2022: 19%) due to depreciation which is unallowable for tax purposes. As the profit before tax and certain re-measurements for the year is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate before certain re-measurements.
- A tax charge of £126 million (2022: £203 million) arising from fair value gains on derivative financial instruments and investment property revaluations.
- The tax charge for 2022 also included a £6 million tax credit relating to the substantive enactment of the increase in the corporation tax rate from 19% to 25%, which took effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase was reflected in the deferred tax balances in the financial statements in 2022.

The Group paid £1 million in corporation tax in the year (2022: £1 million).

Further details can be found in notes 5 and 15.

Capital expenditure

Total capital additions were £635 million (2022: £457 million).

Our H7 capital investment plan is centred around six core programmes which will run throughout the regulatory period – asset management and compliance, replacing the Terminal 2 baggage system, next generation security, investing in our commercial proposition, investing in carbon and sustainability to deliver our net zero goals and investment to improve efficiency and service.

During the year, we invested across these six core programmes to ensure the airport's safety, resilience and compliance whilst continuing to invest in our customer proposition and strategic initiatives. We saw our next generation security programme start work across all terminals within the estate. Further drivers of capital expenditure have been the investment in our cargo and main tunnel projects connecting vehicles and passengers across the estate, our runway resurfacing projects and ensuring our assets remain resilient with a new virtual contingency facility.

We also invested £3 million in the period (2022: £3 million) on projects related to expansion under the property hardship scheme. Expansion-related capital expenditure includes Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. As at 31 December 2023, £506 million of expansion related assets in the course of construction are recognised on the balance sheet, of which £396 million are Category B and £110 million are Category C (after £10 million of re-work impairment recognised in 2020 and including capitalised interest). In addition, £111 million of expansion related assets are recognised within investment properties.

RECENT FINANCING ACTIVITY

In the year ended 31 December 2023, we raised £780 million of new Class A 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:

- The scheduled repayment of a £750 million public bond in February.
- £85 million of new private placement debt in July, with maturities in 2038 and 2043.
- The issuance of our debut Sustainability-Linked Bond in July, a €650 million 10-year trade using the 2030 Sustainability Performance Targets as set out in our Sustainability-Linked Bond Framework.
- The exercise of an option in September to extend our Revolving Credit Facility by one year, extending the maturity to 2027.
- The issuance of a dual tranche £140 million wrapped bond in November, with maturities in 2056 and 2057.
- Finally, in December, we received unanimous lender approval for the conversion of our Revolving Credit Facility and Working Capital Facility to a Sustainability-Linked Loan.

During the year, we made early paydowns of accretion on our inflation swaps totalling £484 million. In December, we redeemed in full the outstanding £750 million of debt held at ADI Finance 2 Limited.

FINANCIAL RATIOS

At 31 December 2023, Heathrow SP and Heathrow Finance continue to operate within the required financial ratios from the Common Terms Agreement. Heathrow Finance's gearing ratio has now returned below pre-pandemic levels. Gearing ratios are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB'). The interest cover ratio is a trigger event and covenant at Class A, trigger event at Class B and financial covenant at Heathrow Finance.

At 31 December 2023, Heathrow's RAB was £19,804 million (31 December 2022: £19,182 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 63.7% and 74.7% respectively (31 December 2022: 64.9% and 76.0% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 84.9% (31 December 2022: 82.3%) with a covenant of 92.5%.

In the year ended 31 December 2023, the Group's senior and junior interest cover ratios were 3.72x and 3.24x respectively (2022: 10.97x and 6.97x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.86x (2022: 4.44x) compared to a covenant level of 1.00x under its financing agreements.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 December 2023, the defined benefit pension scheme, as measured under IAS 19, was funded at 95.6% (31 December 2022: 96.3%). This translated into a deficit of £128 million (31 December 2022: £104 million). The £24 million decrease in the deficit in the year is largely due to total actuarial losses of £24 million, attributable to an increase in liabilities and experience losses reflecting actual inflation in 2023, offset by a gain on assets and gains from changes in the underlying demographic assumptions, as well as: service costs of £10 million; a finance charge of £4 million; and contributions paid in the year. In the 12 months ended 31 December 2023, we contributed £14 million (31 December 2022: £29 million) into the defined benefit pension scheme. No deficit repair contributions have been paid in the 12 months (31 December 2022: £15 million). The Directors believe that the scheme has no significant plan-specific or concentration risks. Further details can be found in note 16.

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 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 Climate-Related Financial Disclosures ('CFD') as described on pages 74 to 85, we have considered our transition risks and have ensured that they 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 the CFD as well as with regard to our net zero sustainability strategy as described on pages 38 to 40.

JAVIER ECHAVE
Chief Financial Officer

21 February 2024


Heathrow
Making every journey better

OUR APPROACH TO CAPITAL ALLOCATION

For Heathrow to generate stable long-term returns significant investment is required. To make these investments we need to ensure that we have access to appropriate short and long-term capital.

Our primary sources of capital are:

- Cash generated from our operations – refer to page 19 for details on how we generate our revenues.
- Debt – external borrowings from public and private capital markets.
- Equity investment – cash from our shareholders.

Our key considerations to ensure efficient deployment of capital are:

- Maintaining a strong balance sheet – ensuring that we have enough cash to pay our creditors and that our asset base is strong.
- Investing in our business – growing and improving Heathrow airport.
- Providing a fair return to our shareholders – our shareholders have invested billions into our business, and it is fair that they receive a fair return on this investment.

MAINTAINING A STRONG BALANCE SHEET

We seek to ensure we maintain a strong balance sheet so that we can comply with debt covenant and regulatory requirements, as well as being able to insulate us against external economic risks. We generate high quality operating cashflows which enable us to maintain good liquidity and a positive net current asset position.

As part of achieving this objective we are subject to regulation from the Civil Aviation Authority ('CAA'). Directors are required to submit a 'Certificate of Adequacy of Resources' to confirm that we expect to have sufficient financial resources, after taking into account any dividend or other distribution which might reasonably be expected to be declared, any amounts of principal and interest due under any loan facilities, and any actual or contingent risks which could reasonably be material. Ultimately the Directors provide confirmation that we expect to have sufficient resources and financial and operational facilities to enable us to continue to provide airport operation services for a period of at least two years. The Directors expect to deliver this later this year.

INVESTING IN OUR BUSINESS

Since we became privately owned, we have invested over £13 billion of private money into improving the quality of our airport. Our internal cashflow generation and external debt are vital to ensuring we can continue to invest and ensure our stakeholders benefit from our position as the UK's only hub airport.

We are incentivised to continue to invest and generate long-term returns through economic regulation from the CAA, which allows a return on efficient investments. When this return is sufficient, it allows us to access capital markets and obtain the finance required to invest.

In March 2023, the CAA published its final decision for the 'H7' Price Control period (between 2022 and 2026). Our capital investment plan for H7 is centred around six core programmes which will run throughout the regulatory period – asset management and compliance, replacing the Terminal 2 baggage system, next generation security, investing in our commercial proposition, investing in carbon and sustainability, to deliver our net zero goals, and investment to improve efficiency and service.

Proposed future investment and consideration of the ability to access suitable funds is monitored and managed through our short-term Management Business Plan and longer-term Regulatory Business Plan and investments are dependent on reaching satisfactory regulatory terms with the CAA.

PROVIDING A FAIR RETURN TO OUR SHAREHOLDERS

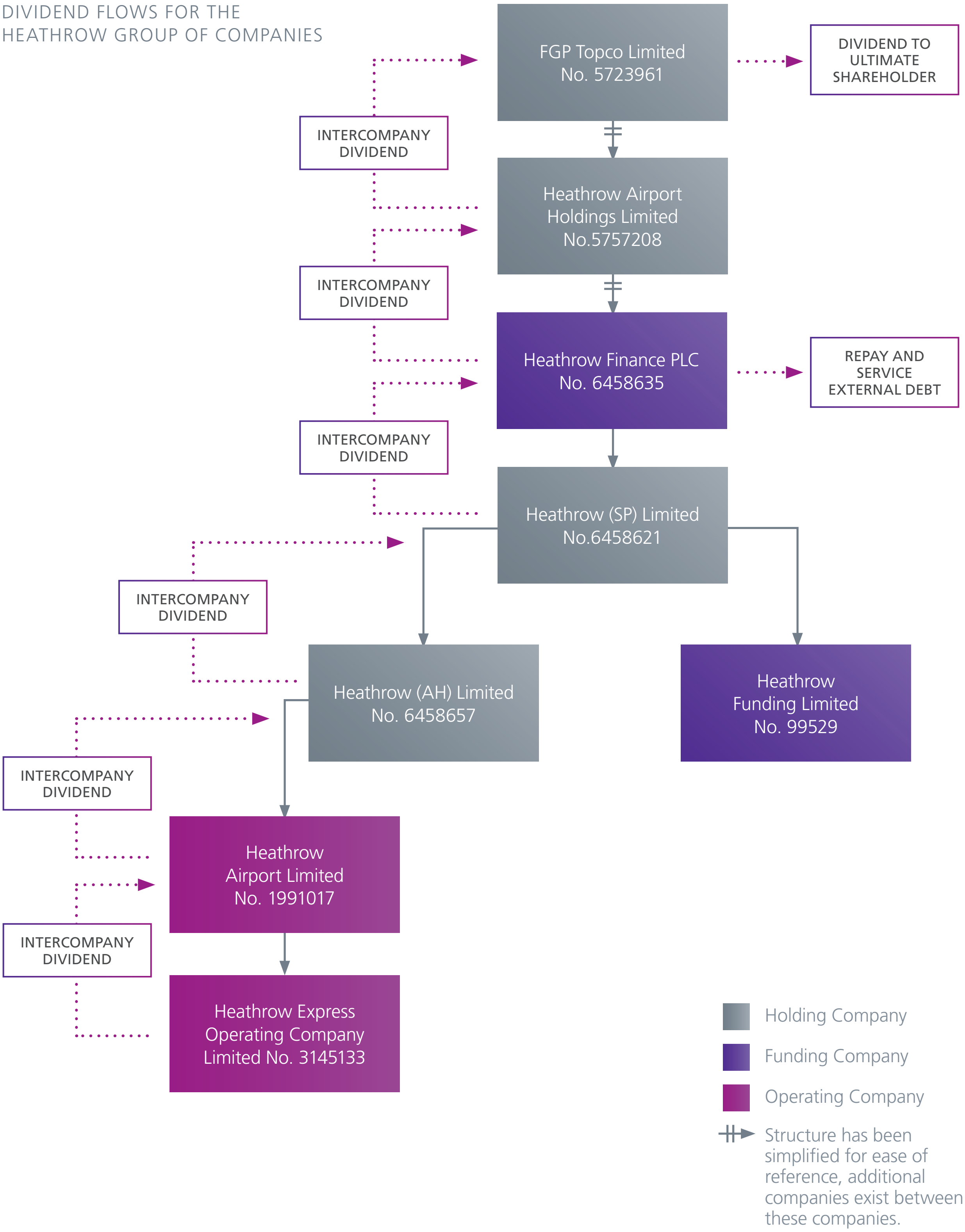
Like any privately owned business, it is essential that we can provide our shareholders with a fair return on their investment. Where we have met our balance sheet requirements and have concluded we have suitable capital to meet our investment plans, the Directors seek to provide shareholders with a fair return through a dividend payment, while delivering our commitment to maintain our current investment grade credit rating.

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

The Directors of each of the companies within the Heathrow group of companies consider the Group's capital structure and distributable reserves before proposing dividends. Dividends are only paid where Heathrow has generated enough allowable distributable reserves.

Dividends are paid up through the structure of the Heathrow group of companies to fund dividends to the Group's ultimate shareholders and to repay and service external debt at the Group's holding companies. In 2023 no dividends were paid to Heathrow (AH) Limited (2022: £nil).

DIVIDEND FLOWS FOR THE HEATHROW GROUP OF COMPANIES



OUR APPROACH TO TAXATION

It is important to us that the right amount of tax is paid at the right time. We understand that we have a corporate responsibility to collect and pay tax and have been working hard to promote tax transparency and build trust with our stakeholders.

Our operations, whilst large, are conducted entirely from the UK with no overseas operations. Accordingly, we pay a range of UK taxes and we are one of the biggest business rates payers in the country, paying over £1 billion into the public purse over the past decade.

We operate not only within the UK's tax laws, but also within the spirit of them. All profits are within the scope of UK corporation tax and no profits are routed through tax havens. We have no investments outside the UK that are not subject to UK tax.

TAX STRATEGY

Heathrow's tax strategy was approved by the Audit Committee on behalf of the HAHL Board[1] in July 2023 and is published on the Heathrow website. Heathrow's tax strategy confirms:

- Our approach to risk management and governance arrangements in relation to UK taxation.
- Our attitude towards tax planning (so far as affecting UK taxation).
- The level of risk in relation to UK taxation that we are prepared to accept.
- Our approach towards dealings with HM Revenue and Customs ('HMRC').

Overall accountability for Heathrow's tax strategy sits with the HAHL Board. The Chief Financial Officer, in his capacity as senior accounting officer, ensures that Heathrow has a tax strategy which supports and directs for the appropriate recording and delivery of tax obligations. This strategy is reviewed and approved by the Audit Committee on behalf of the Board.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 104.

APPROACH TO RISK MANAGEMENT AND GOVERNANCE

Given the scale of our operations, it is important to ensure the right processes and controls are in place to manage potential tax risks. To achieve this we ensure that the appropriate policies, processes and systems are in place and that these are reviewed for operational effectiveness.

We are vigilant in the creation and maintenance of robust processes for recording the right amount of tax. The tax team is adequately staffed with clearly defined roles and each individual has the required skills and support to carry out their role effectively. Regular training is provided to ensure the team is capable of managing the tax risks, including the encouragement of appropriate skills across the business. Where necessary, external tax advice is sought to ensure that the correct amount of tax is considered in relation to any business restructure, complex transaction or legislative change.

The Audit Committee periodically reviews tax matters affecting Heathrow. Any concerns are addressed in a tax risk register which evaluates identified risks and supports the development of a response strategy to address the given item. All risks are monitored and controlled as appropriate.

ATTITUDE TOWARDS TAX PLANNING

We pay UK tax in accordance with all laws and regulations. As part of the business and commercial operations, we seek to utilise available tax reliefs, incentives and exemptions in line with both the intent and letter of tax legislation whilst not being involved in tax planning other than that which arises from genuine commercial activity. This means that we will not structure transactions in a way which gives a tax result contrary to the intentions of Parliament nor adopt measures to manage its effective tax rate.

ACCEPTED LEVEL OF RISK

Our tax strategy supports the business strategy. It is focused on ensuring both tax and tax risks are managed to provide sustainable outcomes. As a result, we have a low tax risk appetite. The approach is to mitigate any risk by taking reasonable care whilst also considering our brand, reputation and the wider airport community. We are also committed to ensuring that tax evasion is not facilitated and we have implemented procedures to prevent such behaviour.

APPROACH TO HMRC

We seek to have an open and transparent relationship with HMRC, creating and maintaining mutual trust.

The Tax team is responsible for supporting the business in meeting its tax obligations in an open and transparent manner, ensuring that any inadvertent errors identified are disclosed to HMRC as soon as reasonably practical and processes are put in place to prevent repetition.

We seek to engage in relevant Government initiated tax consultations to ensure that the views of business are represented.

OUR APPROACH TO RISK MANAGEMENT

Identifying, understanding and managing risk is fundamental to our strategy and success.

ENTERPRISE RISK MANAGEMENT POLICY AND FRAMEWORK

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

The framework provides guidance on how risks should be identified, mitigated, reviewed, and reported within Heathrow. During the year we continued the evolution of our risk processes, building on the current risk management structure, to enhance the data quality, completeness of risk information and control measurement in addition to improving the overall reporting integrity.

The HAHL Board[1] has overall responsibility for the framework and for reviewing the effectiveness of the risk-response system. There are two HAHL Board sub-committees which are responsible for risk: the Audit Committee, which reviews the effectiveness of systems for internal financial and operational control, and the Sustainability and Operational Risk Committee, which reviews the effectiveness of operational reporting and performs an oversight review of the performance against sustainability goals and operational targets.

To achieve a balanced view of our risk landscape in line with wider company objectives, all of our risks are evaluated against defined risk appetite levels, which are captured in a formal risk appetite statement that is consolidated and reviewed on an annual basis.

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets quarterly. The risks are then reviewed by the Executive Committee before being submitted to the Audit Committee and Sustainability and Operational Risk Committee for independent review and challenge. The final Heathrow Risk Outlook Report is then reviewed and approved by the HAHL Board on a quarterly basis.

PRINCIPAL AND EMERGING RISKS

Principal risks have been identified at an executive level ensuring a comprehensive top-down approach to risk identification and management. A Principal Risk is a risk that has been identified by the HAHL Board, its formal Committees, the Executive Committee, or the Risk and Assurance Committee, as an important risk that fundamentally affects the business's ability to deliver on its overarching objectives. A Principal Risk is assessed according to the likelihood, consequence, and velocity by which the risk may impact Heathrow. Key controls and mitigations are documented, and every Principal Risk has clear management oversight.

Emerging and Short-Term Risks are also analysed on a quarterly basis as part of our bottom-up functional risk management reviews. They are assessed in line with the Heathrow Risk and Assurance Management Framework and managed through functional risk registers.

Our risk appetite statement

'Heathrow Airport has no appetite for safety risk exposure that could result in injury or loss of life to public, passengers and colleagues.

Similarly, robust controls and contingency measures are in place to contain any potential security, environmental or legal breach within minimal levels of impact.

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

In a dynamic and evolving environment our appetite and tolerance of risk must be progressive, and it should be defined in a proportionate and calibrated way.

The business accepts that absolute operational, system and infrastructure resilience is impossible. It will work proactively to mitigate the impacts on the business within the risk/return balance set by the company.

In the pursuit of its objectives, Heathrow Airport is willing to accept, in some circumstances, risks that may result in some financial loss or reputational exposure.'

RISK LANDSCAPE

It is important to acknowledge the dynamic, rapidly changing, and challenging risk landscape that Heathrow operates within. Many of the risks we face are closely interlinked and have a high level of external dependency. This landscape encompasses a range of factors such as operational risks from the ever-increasing exposure to cyber-attacks, as Critical National Infrastructure, our ability to maintain access to financial markets to fund the business, and broader economic uncertainty. Throughout all our decision-making and risk assessment, the health, safety and security of colleagues and passengers remains at the core.

The Civil Aviation Authority ('CAA') has set a challenging settlement for the H7 period and, now that the Heathrow and airline appeals to the Competition and Markets Authority have concluded, there is greater regulatory certainty. We plan to continue to invest during the H7 period to mitigate risks across our risk landscape – including significant investments in security, a new T2 baggage system to drive improved resilience, and investments that will enable us to reduce our carbon emissions.

Significant geopolitical risk has also characterised the risk landscape over the last 12 months. Unrest in the Middle East is a new concern as well as growing tensions with China; the continuing war in Ukraine is restricting airspace, and impacting airline routes, as well as exacerbating existing global economic challenges linked to rising energy prices, high inflation and weak global and UK economic growth. There is a risk that these economic headwinds dampen passenger confidence and disposable income.

The risk of climate change continues to be the most significant risk facing both Heathrow and the global aviation sector over the longer term. Climate change is an existential risk for Heathrow, and management have continued to take a leadership role on promoting the removal of carbon from aviation on both the national and global stage, further discussed on pages 38 to 40. We continue to see the rapid manifestation of physical climate change related risks and extreme weather events, such as surface water flooding and record temperatures. Scenario modelling is supporting us to further understand the possible consequences of these risks and the appropriate mitigation strategies, which will need to continue to evolve in the coming years.

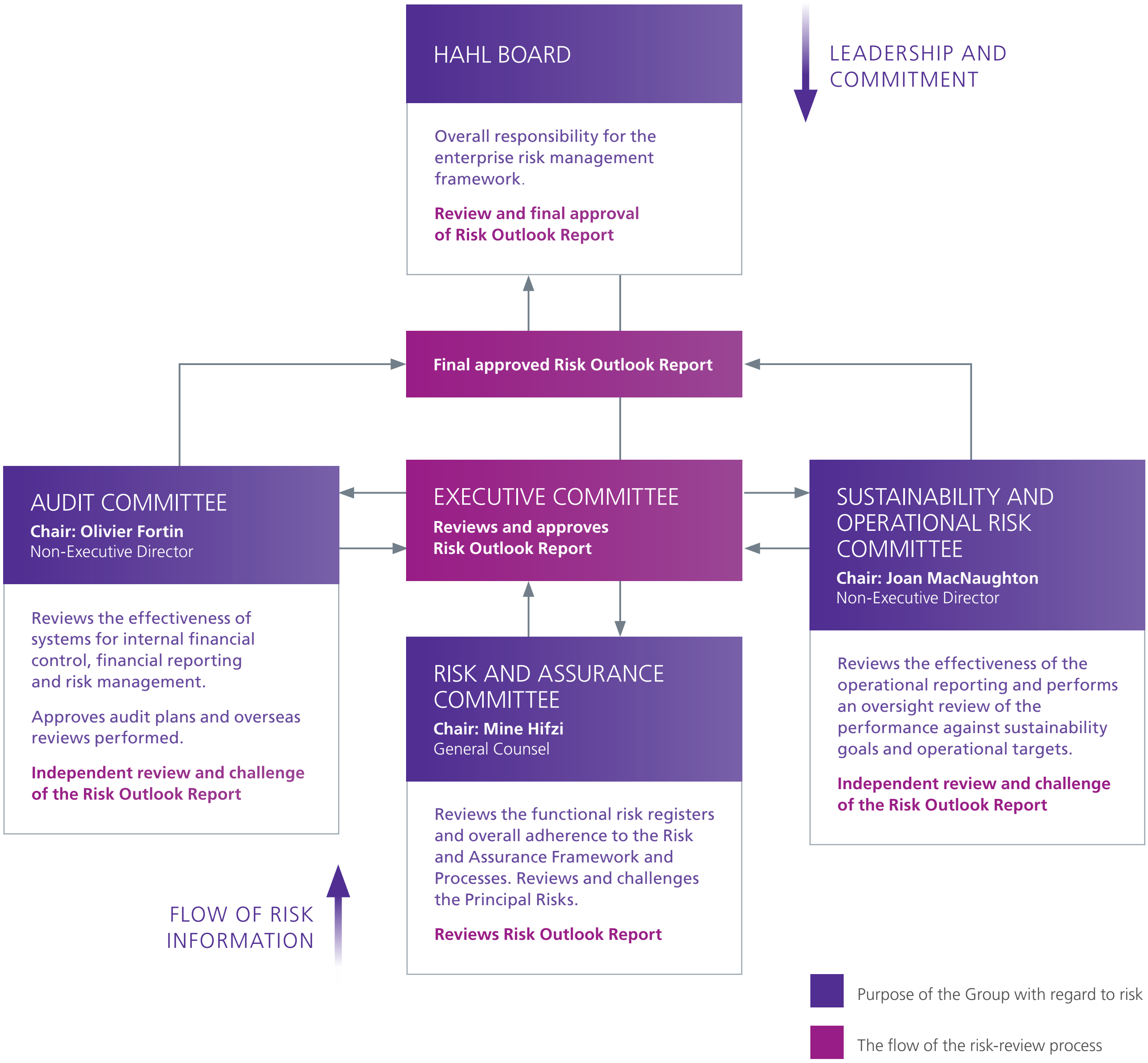
Working with key partners, including Virgin, the first commercial flight powered by sustainable aviation fuel took off from Heathrow in November – a key milestone on our journey to net zero aviation. Government policy support for expansion remains in place and we continue to promote the case for an expanded Heathrow, supporting the UK's economic growth whilst managing the risks and uncertainties within a rapidly evolving and volatile external context.

We are committed to proactive risk management, ensuring organisational resilience and adaptability in navigating potential risks. Risk mitigation and increasing organisational resilience remains a focus at all levels within Heathrow.

MINE HIFZI
General Counsel and Company Secretary

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 104.

RISK MANAGEMENT



OUR PRINCIPAL RISKS

The risks outlined are the principal strategic, corporate and operational risks identified. This is a current point-in-time assessment of the risk profile that the Company faces as at 31 December 2023. As the risk environment evolves these risks are being constantly reviewed and updated.

PRINCIPAL RISK:

A safe and secure operating environment

STABLE — RISK / IMPACT

CONTEXT:

Our focus on fire, health, safety and wellbeing is driven by our values. It's not only the right thing to do; if we don't set and strive for the highest standards, we risk causing harm to our colleagues and stakeholders, compromising our service to passengers, and damaging our reputation. Ultimately this will affect our business performance.

The UK security threat level is substantial, meaning an attack is likely. We are responsible for ensuring that our assets, infrastructure, human and electronic systems, and processes meet requirements to protect aviation security, deliver high security standards, and build confidence with regulators, airlines and passengers.

CAUSES:

Fire, Health, Safety and Wellbeing

- Our occupational health and safety risks reflect working in a complex operational environment. Driving airside and other high-risk activities, such as working at height, are mainly undertaken by third parties, hence the importance of the Safety Culture Programme and local and senior level safety networks.
- Our understanding of the risks from fire of alternative fuelled vehicles to safety and operation is evolving as the technology and widespread use increases. A sub-group of the Airport Safety Committee has been setup to keep pace with the change and learn from other airports and incidents e.g., the Luton car park fire.
- Mental Health and musculoskeletal ('MSK') are the top two reported reasons for sickness absence, at 23% and 12% of working days lost respectively in 2023. We are committed to preventative interventions including risk assessing work design and providing line manager mental fitness training, whilst further increasing awareness and utilisation of the tools and services available to support colleagues.
- H7 will deliver the fifth largest capital spend in the UK. Competing for labour in a depleting national workforce increases the risk of inexperienced operatives delivering works in a complex operational environment.

Security

- Security threats can emanate from a variety of sources. Aviation will always be an attractive, high-profile target for groups seeking to disrupt. Heathrow has a mature and comprehensive way of risk identification and, working with law enforcement and other agencies, designs appropriate mitigation to counteract potential risks.
- The number and variety of customers utilising the security product and the airside landscape within which we operate, contribute to the safety risk profile and therefore the hazards and injuries sustained. Verbal and physical abuse from customers, along with the manual handling of cabin baggage remain key contributors within Terminals and on our Campus. Occupational driving and working at height when screening high-sided vehicles are high consequence risks. Security has integrated competent safety resource within its organisation to identify and mitigate risk under its safety improvement plan.

KEY CONTROLS AND MITIGATIONS:

- Championing a Just Culture where everyone feels they are supported to be psychologically safe.
- Embedding clear Fire, Health and Safety standards, supported by second and third line of defence assurance.
- Embedding and assuring the Management of Third-Party Standards.
- Measurement of Heathrow and Team Heathrow's Safety Culture against a baseline and monitoring improvement against KPI's (e.g., Lost Time Injuries).
- Ensuring hierarchy of controls are applied in design, build, maintenance and change control.
- Heathrow operates to the Aviation Security baseline, as defined by Department for Transport in the National Aviation Security Plan ('NASP'). Heathrow's compliance with the NASP is assessed throughout the year through Civil Aviation Authority ('CAA') observations, testing, inspection, and audit mechanisms.

LINK TO STRATEGIC PRIORITIES

MOJO · TRANSFORM CUSTOMER SERVICE

PRINCIPAL RISK:

Information security

INCREASED RISK / IMPACT

CONTEXT:

Information security continues to be a significant risk for Heathrow, primarily concerning our systems, information, and the data they contain. There has been an escalation in the risk level due to an increase in malicious activities, motivated both geopolitically and criminally.

CAUSES:

The year 2023 marked a continued rise in incidents affecting Critical National Infrastructure, including Distributed Denial of Service attacks targeting transportation services and associated third-party suppliers. Phishing and ransomware persist as the prevalent attack vectors in the majority of incidents impacting the aviation industry.

KEY CONTROLS AND MITIGATIONS:

- Heathrow has adopted the 'Cyber Security Oversight Process for Aviation' (CAP 1753), as outlined by the CAA, which is based on the National Cyber Security Centre's 'Cyber Assessment Framework'. A strategic, incremental improvement program has been established to enable compliance with CAP1753 via the ASSURE audit process. Confidence in the security of technology, personnel, and processes relevant to essential functions has been bolstered through rigorous assurance activities.
- Information and Cyber Security is a regular item on the Executive Committee's agenda, with frequent updates on the Cyber Delivery Programme, current security posture, and upcoming initiatives. Furthermore, discussions include emerging cyber risks and measures for enhancement. A robust cyber security risk management framework has been instituted to ensure comprehensive understanding and management of system, supplier, and departmental risks.
- Promoting a culture of cyber security is a top priority for Heathrow. This is achieved through mandatory annual training for all colleagues and privileged users, alongside regular campaigns to enhance cyber hygiene and inform about policy updates. Innovative and realistic phishing simulations are also employed.
- Heathrow maintains a resilient process for managing and responding to threats through regular threat intelligence, robust vulnerability management, and a dedicated Security Operating Centre. This is complemented by close collaboration with business resilience teams. To maintain cutting-edge knowledge and expertise, we collaborate with governing bodies to safeguard the Critical National Infrastructure status of the airport.

LINK TO **STRATEGIC PRIORITIES**

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE · SUSTAINABLE GROWTH

PRINCIPAL RISK:

Regulation requirements

STABLE RISK / IMPACT

CONTEXT:

We are subject to economic regulatory review. Changes to economic regulation could materially impact the performance of the business. Failure to comply with laws and regulations could result in loss of licence, penalties, claims and litigation, reputational damage, and loss of stakeholder confidence.

CAUSES:

- Inadequate submissions by Heathrow to the CAA.
- Unfavourable CAA decisions on price limits.
- Unfavourable CAA decisions on regulatory framework.
- Failure to comply with licence requirements including compliance and reporting.

KEY CONTROLS AND MITIGATIONS:

- The risk of an adverse outcome from economic regulatory review is mitigated as far as possible by a dedicated regulatory team together with governance and oversight by the Executive Committee and the Board.
- The Regulatory team acts to ensure that all submissions to the CAA are accurate and consistent with the wider Heathrow strategy. The team engages regularly with the CAA to ensure good understanding and to be able to provide the CAA with the right form of information.
- The Regulatory team is currently focusing on the right form of regulation for H8 and beyond and preparing for an H8 business plan submission within the next two years.
- The Regulatory team ensures full compliance with regulatory requirements, establishes a sound relationship with the CAA and advises the Executive Committee and HAHL Board on regulatory matters.
- We engage closely with internal and external legal advisors to ensure that relevant and appropriate advice is received and that our response to reviews, and our actions to ensure compliance with regulatory requirements, reflect such advice.

LINK TO **STRATEGIC PRIORITIES**

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE · SUSTAINABLE GROWTH

PRINCIPAL RISK:

Legal status of Airports National Policy Statement ('ANPS')

STABLE
RISK / IMPACT

CONTEXT:

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

Heathrow was making considerable progress towards developing its Development Consent Order ('DCO') application to deliver a sustainable, affordable and financeable expanded Heathrow, including holding multiple consultations to seek feedback on its proposals. However, on 27 February 2020, the Court of Appeal concluded that the UK Government was required but had failed to take into account the Paris Climate Agreement when preparing the ANPS. The Court declared that the ANPS had no legal effect unless and until the UK Government carried out a review of the policy.

Heathrow appealed against this decision and in December 2020, the Supreme Court unanimously held that the UK Government had acted lawfully when making the ANPS, overturning the Court of Appeal's decision. The judgment confirmed that the UK Government had properly exercised its discretion and had taken into account the Paris Climate agreement by having regard to the Climate Change Act 2008 in the ANPS.

On 6 September 2021, the Secretary of State for Transport decided that it was not appropriate to review the ANPS at this time. Further confirmation of the status of the ANPS has been made through the May 2022 publication of 'Flightpath to the Future' and the July 2022 publication of 'Jet Zero Strategy'. The Government's ANPS continues to provide policy support for Heathrow's plans for a third runway and the related infrastructure required to support an expanded airport.

CAUSES:

- The ANPS, put in place in June 2018, may in due course be subject to review.
- A possible change in UK Government in 2024 could mean a different approach is taken in regard to airport expansion policy.

KEY CONTROLS AND MITIGATIONS:

- Since the Supreme Court overturned he Court of Appeal's decision and the ANPS was restored, we have positively reiterated the case for expanding Heathrow in line with Government policy.
- We continue to engage with the Government, the CAA and other stakeholders on the next steps to progress our plans.
- Heathrow remains committed to a long-term sustainable expansion.

LINK TO
STRATEGIC PRIORITIES

MOJO | BEAT THE PLAN | TRANSFORM CUSTOMER SERVICE | SUSTAINABLE GROWTH

PRINCIPAL RISK:

Volatility in global demand and revenues

STABLE
RISK / IMPACT

CONTEXT:

Revenue growth may be inhibited by the lack of certainty over global consumer demand recovery in 2024, driven by high inflation, potential slowdowns in economic growth and pressure on consumer spending. A limited capacity for growth dependent on slot trading, combined with the highest aviation taxes in Europe ('Air Passenger Duty'), continue to put pressure on airports and hub airlines.

There is significant revenue risk relating to the continued absence of VAT Free shopping and lack of competitive parity with EU airports.

CAUSES:

- Market volatility.
- Cost inflation.

KEY CONTROLS AND MITIGATIONS:

Aviation

- A Network Strategy is in place to target new routes, grow market share and increase competition in key markets.
- An Aviation Strategy is in place to optimise revenues generated from aviation with the goal of delivering sustainable growth, increased hub connectivity, both globally and domestically, and diversifying revenue.
- Industry monitoring via daily updates from CAPA – Centre for Aviation (market intelligence for the aviation and travel industry), media cuts and other industry events, as well as attendance at Routes (network) and International Air Transport Association ('IATA') (slots and cargo) conferences.
- Senior engagement and account plans are in place with key airlines to continue collaboration in order to drive passenger growth.
- There is close alignment internally with the Space, Retail and Property teams to optimise commercial opportunities.

Retail

- Close monitoring and balance of assessed debt and contractual fixed income guarantees to maximise overall retail revenue.
- Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deal with minimal disruption and delay (e.g., lending locations to businesses that could make immediate use of the structure 'as is').
- Continued dialogue with officials in the Treasury ('HMT') around the impact and pitching of an alternative solution for the reintroduction of VAT free shopping for departing passengers and the opportunity to introduce duty free shopping for arriving passengers.

LINK TO
STRATEGIC PRIORITIES

MOJO | BEAT THE PLAN | TRANSFORM CUSTOMER SERVICE | SUSTAINABLE GROWTH

PRINCIPAL RISK:

Ability to access financial markets

STABLE — RISK / IMPACT

CONTEXT:

We need to maintain access to sources of finance to fund our current operations.

CAUSES:

A more challenging H7 regulatory settlement and the realisation of principal risks such as volatility in global demand and revenues, could impact financial performance and a lead to a deterioration in our credit rating.

KEY CONTROLS AND MITIGATIONS:

- Long-term forecasting including downside sensitivity analysis, to enable management to assess credit metrics against covenant levels and rating agency thresholds, identifying mitigating actions as necessary, and ensuring protection against minimum thresholds and continued access to financial markets.
- We have invested in a suitably skilled Business Planning and Treasury team who have robust procedures in place to ensure that the best quality investment decisions are made and can be appropriately financed.

LINK TO **STRATEGIC PRIORITIES**

PRINCIPAL RISK:

Organisational resilience

STABLE — RISK / IMPACT

CONTEXT:

The operating of an airport on the scale of Heathrow presents both known and unforeseen challenges. The purpose of organisational resilience is to ensure a level of preparedness to disruptive events. Following a cycle of activities (Prevent, Mitigate, Prepare, Respond, Recover) Operational and Business Resilience teams develop Heathrow's incident response and business continuity capability.

CAUSES:

A major critical event, leading to significant operational and business impact, and resulting in significant disruption and potential closure of the airport. This could be as a result of one or many internal causes, including critical infrastructure or asset failures, loss of resource, and mass congestion due to inadequate planning, or external causes, including extreme adverse weather, terrorism or security threat, and loss of a critical supplier or service.

KEY CONTROLS AND MITIGATIONS:

- Adherence to CAA licence requirement: to secure the availability and continuity of airport operations services, particularly in times of disruption, and to further the interests of users of air transport services in accordance with best practice and in a timely, efficient and economical manner.
- Risk identification and avoidance with systematic reviews of operational and non-operational risks and associated control measures and their efficacy.
- Asset management lifecycle, certified to ISO55001, to mitigate the likelihood of asset failures and to support longer term capital replacement programmes.
- Mitigation and contingency planning with development of a series of plans that can be deployed in the event of a disruption.
- Exercising and post incident review which supports increased preparedness and continuous improvement of our incident response.
- Command and Control aligned to the UK standard of Integrated Emergency Management for disruptive events and aligns with industry best practice by adopting the UK Joint Emergency Services Interoperability Principles ('JESIP').
- Collaboration with key partners to develop joint contingency plans.
- The Airport Operations Centre ('APOC') is a 24/7 facility which brings together the operational planning, monitoring and day-to-day oversight of Heathrow with our service partners. Providing support to front line teams to steer smooth running of the airport and is the foundation for command and control structures in times of a disruption.
- End to end understanding by taking a holistic approach to resilience, considering the upstream and downstream impacts of a disruption to support wider organisational resilience.

LINK TO **STRATEGIC PRIORITIES**

PRINCIPAL RISK:

Resource and talent

STABLE
RISK / IMPACT

CONTEXT:

Our people ensure that we can operate the airport effectively and efficiently. Strong progress has been made over the past 12 months to stabilise Heathrow's resource position back to around pre-pandemic levels, enhancing operational resilience. With a significant proportion of colleagues relatively new to the organisation, it is critical that we continue to deliver effective induction and talent development, as well as retaining longer-serving colleagues through upskilling and offering career opportunities. These activities ensure that the airport can provide great passenger service and deliver across key capital portfolios.

CAUSES:

Throughout 2023, Heathrow experienced significant growth at a fast pace and in a highly competitive recruitment market and reward landscape, influenced by external economic factors. The outlook for 2024 is positive. External labour market demand is slowing and current resource levels are optimised. Despite this, attrition levels will continue to be carefully monitored.

KEY CONTROLS AND MITIGATIONS:

- A Dedicated Resourcing Taskforce delivered focused activity to drive down vacancy volumes through 2022-23.
- Launch of the 'No Place Like Heathrow' campaign, which coherently communicates the Heathrow colleague proposition.
- Resourcing process efficiencies and automation have been introduced to improve delivery capability across candidate selection and onboarding.
- Career and Talent strategy plans have been endorsed to include the:
  - Introduction of new integrated performance and talent frameworks, focused on colleague engagement through wellbeing, capability, aligning opportunities to aspirations and readiness to progress careers.
  - Regular review of talent and attrition data to ensure stretch opportunities are provided and less conservative career moves are facilitated.
  - Introduction of an internal careers' advice service in 2023 (Careers Champions).
  - Re-introduction of early careers programmes in 2022 and 2023.
  - Design and implementation of a range of new colleague development and upskilling programmes through 2023 and into 2024.

LINK TO **STRATEGIC PRIORITIES**

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE · SUSTAINABLE GROWTH

PRINCIPAL RISK:

Political Environment

STABLE
RISK / IMPACT

CONTEXT:

Our ability to meet passenger and cargo demand is reliant on political support. Changes to the Government, and therefore to government priorities, can impact material decisions that are taken by us. Political stability has become more uncertain, with any change in either the current Prime Minister and Cabinet, or a new Government, having the potential to impact the environment in which Heathrow operates.

CAUSES:

- Potential 2024 UK General Election.
- Increased frequency of ministerial changes.

KEY CONTROLS AND MITIGATIONS:

- We continue to make a strong case for our place in the wider economy and the part we play in a successful Global Britain.
- We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAHL Board, which has implemented a structured approach to the identification and management of all risks related to changing Government policy.

LINK TO **STRATEGIC PRIORITIES**

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE

PRINCIPAL RISK:

Competition

STABLE
RISK / IMPACT

CONTEXT:

We compete against other airports both within the UK and across the world for passengers, some of which make marginal choices, particularly connecting passengers, about which route they will fly.

Heathrow's aeronautical charges will decrease from 2023, but they are still higher than other London airports and European Hub competitors; this potentially reduces our competitive advantage. We will need to continue to deliver great value and service quality to our airlines and passengers to retain them.

CAUSES:

- Regulated framework and pricing.

KEY CONTROLS AND MITIGATIONS:

- Ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users.
- Maintain commercial strategies to deliver great value to airlines and consumers.

LINK TO **STRATEGIC PRIORITIES**

BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE · SUSTAINABLE GROWTH

PRINCIPAL RISK:

Climate change and net zero carbon

STABLE RISK / IMPACT

CONTEXT:

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow. Working with the wider aviation industry, we must demonstrate tangible progress towards achieving the sector's net zero goal in this decade.

In November 2022, the International Civil Aviation Organisation ('ICAO'), formed by 193 member states, committed to net zero carbon emissions for international civil aviation by 2050. By 2021, the entire aviation had already committed to the same goal, including the International Air Transport Association ('IATA'), the international industry airline body. Heathrow has committed to net zero carbon and, in February 2022, we published our Net Zero Plan which guides our approach to decarbonisation. Our plan is aligned to the broader UK sector roadmap and sets clear goals and targets to cut emissions by 2030 and beyond.

CAUSES:

Heathrow considers climate related risks under the following categories:

- **Transitional risks** – Transitional risks relate to the decarbonisation of Heathrow and the aviation sector to achieve net zero carbon emissions. Political, consumer and investor attitudes to aviation's climate impacts will become more negative without tangible progress to cut emissions and deliver the sector's Net Zero Plan, threatening our ability to operate and grow.
- **Physical risks** – Physical risks relate to the resilience of our assets, operations and network to the negative impacts of climate change including more extreme weather events.

These risks are presented in greater detail in the Climate-Related Financial Disclosures ('CFD') section on page 74.

KEY CONTROLS AND MITIGATIONS:

- The significant priority is accelerating net zero flying this decade by securing the right policies for sustainable aviation fuel ('SAF') production at scale in the UK and building a high ambition coalition globally for net zero aviation and SAF. We work with the broader aviation sector and the UK Government as part of the Jet Zero Council to progress net zero aviation. We have also established a SAF incentive as part of our aeronautical charges to encourage airlines to uplift SAF at Heathrow and provide a market demand signal.
- We have established a strategic carbon delivery programme in our H7 regulatory settlement period which ends in 2026. The programme, which includes £250 million of capital investment, will deliver the carbon emissions reductions we included in our Net Zero Plan, during this regulatory settlement period. Capital investment projects include works at Heathrow to enable airspace modernisation and improve the efficiency of aircraft movements on the ground, replacing and expanding the provision of pre-conditioned air to heat and cool aircraft on the ground, avoiding engine use, delivering electric vehicle charging and design work on our future zero carbon heating and cooling solution.
- To guide and support the delivery of our Net Zero Plan, climate change has been embedded into our governance structures, business planning development and operational processes and is supported by employee training and targets. We operate ISO 140001 and 50001 management systems which commit us to continuous improvement.
- We complete a climate adaptation risk assessment every five years which informs our overall approach to adapting our airport to future climate conditions which is incorporated into our overall risk management framework. The risk assessment guides our approach to understanding the nature of impacts and the effectiveness of our mitigation measures, as well as informing improvements including updating our asset standards and identifying infrastructure improvements.

LINK TO **STRATEGIC PRIORITIES**

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE · SUSTAINABLE GROWTH

CLIMATE-RELATED FINANCIAL DISCLOSURES ('CFD')

On 6 April 2022, the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 amended the Companies Act 2006 to mandate that large UK companies include Climate-related Financial Disclosures ('CFD') as a part of their strategic reporting.

These CFD requirements closely align with the recommendations of the Taskforce on Climate-related Financial Disclosures ('TCFD'). Heathrow has been voluntarily reporting in accordance with TCFD recommendations since 2019.

Following this change, we have aligned our climate risk analysis and disclosures to comply with the new requirements in the current year.

In the table below, we have aligned the CFD's specific requirements with the TCFD pillars of Governance, Strategy, Risk Management, and Metrics and Targets, which we have consistently reported on in the past.

"We continue to enhance our understanding of the risks to our business from climate change, whilst taking action to cut our carbon emissions today by investing in the solutions that will deliver our net zero goals."

OLIVIER FORTIN
Non-Executive Shareholder Director

Disclosure recommendation	Section Reference	Page
GOVERNANCE		
Description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities.	Our commitment to sustainable growth Our approach to risk management Our principal risks Climate-related Financial Disclosures	34 64 68 76 - 77
STRATEGY		
Description of: • The principal climate-related risks and opportunities arising in connection with the company's operations. • The time periods by reference to which those risks and opportunities are assessed.	Climate-related Financial Disclosures	77 - 85
Description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy.	Our commitment to sustainable growth Climate-related Financial Disclosures	34 77 - 85
Analysis of the resilience of the company's business model and strategy, taking into account consideration of different climate-related scenarios.	Climate-related Financial Disclosures	84 - 85
RISK MANAGEMENT		
Description of how the company identifies, assesses and manages climate-related risks and opportunities.	Our commitment to sustainable growth Our approach to risk management Climate-related Financial Disclosures	34 64 76 - 86
Description of how processes for identifying, assessing and managing climate-related risks are integrated into the company's overall risk management process.	Our approach to risk management	64
METRICS AND TARGETS		
Description of key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.	Climate-related Financial Disclosures	86 - 87
Description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.	Our commitment to sustainable growth Climate-related Financial Disclosures	41 - 43 86 - 87

INTRODUCTION

Climate change is Heathrow's most significant mid to long-term principal risk. Responding to climate change is therefore one of our strategic priorities. We continue to enhance our understanding of the risks to our business from climate change, whilst taking action to cut our carbon emissions today by investing in the solutions that will deliver our net zero goals. Although, our focus is on accelerating the decarbonisation of our airport and working with our sector to deliver net zero aviation, discussed on pages 38 to 40, we are also preparing our airport for the effects of a changing climate.

Our commitment is evident in the HAHL Board's[1] decision, through its Finance Committee, to approve the issuance of our inaugural Sustainability-Linked Bond in July 2023, whereby its Sustainability Performance Targets ('SPTs') align with our Heathrow 2.0 2030 climate goals to cut emissions 'In the Air' and 'On the Ground', in which the trajectory consistent with a science-based 1.5°C carbon emissions reduction standard. Similarly, the HAHL Board, through its Finance Committee, approved the decision to link our existing Revolving Credit Facility and Working Capital Facility to sustainability measures, including carbon and Equality Diversity and inclusion ('ED&I') metrics, and we successfully completed this conversion, with unanimous lender approval, in December 2023.

GOVERNANCE

Board oversight

The HAHL Board has overall accountability for setting and overseeing the implementation of Heathrow's strategy including climate-related matters. The CEO has ultimate responsibility for delivering the climate change agenda.

The HAHL Board is regularly briefed on climate-related developments through the CEO's monthly updates. The Board has shaped, reviewed and endorsed our Net Zero Plan, a comprehensive strategy addressing the climate-related risks confronting our business. Climate-related risks, similarly to all our principal risks, influence the HAHL Board's decisions in fulfilling its duties to promote the long-term success of Heathrow and the interests of its stakeholders. In fulfilling its duties, the HAHL Board either delegates responsibilities or is supported by the following Committees:

- The Sustainability and Operational Risk Committee ('SORC') is a sub-committee of the HAHL Board. It has responsibility for reviewing policies, conduct, performance and the risk management approach of Heathrow Airport's group of companies against Heathrow sustainability goals and operational activities. The quarterly meeting has a regular agenda item on climate change and receives a written and verbal update from the Carbon Strategy Director. Further information can be found on page 136.
- The Audit Committee is a sub-committee of the HAHL Board. It reviews material financial climate-related risks and the preparation and content of our Climate-related Financial Disclosures as recommended by the Environmental, Social, Governance ('ESG') Committee to ensure reporting, processes, controls and assurance are adequate to comply with relevant sustainability reporting standards. The Chair of the Audit Committee is also the HAHL Board's Climate Change Director, strengthening oversight of climate-related risks in financial decision-making at board level. Further information can be found on page 124.
- The Remuneration Committee is a sub-committee of the HAHL Board. It supports the climate change strategy by aligning Heathrow's long-term incentive plan with our Net Zero Plan. Further information can be found on page 128.
- The Nominations Committee is a sub-committee of the HAHL Board. It has responsibility for ensuring that the composition of the HAHL Board provides sufficient skills and experience to deliver on all strategic objectives, including sustainability objectives. Further information can be found on page 138.
- The Executive Committee is the committee of the CEO. It is responsible for the day-to-day management of the business, including the implementation of climate-related initiatives delegated by the HAHL Board and recommended by the sub-committees. Climate change influences the decisions made by the Committee in its day-to-day management of the business, for instance, the Executive Committee's approval for the establishment of the ESG Committee during the year, which had its inaugural meeting in September 2023. During the year, the Executive Committee also approved the incorporation of net zero transition into our passenger forecasting process, complementing the existing climate considerations already embedded in our strategic and financial processes. Further information can be found on page 116.
- The Risk and Assurance Committee is a sub-committee of the Executive Committee, and it is responsible for reviewing the effectiveness of the risk-management strategy and framework which embeds climate-related risks within our business. Further information can be found on page 117.
- The ESG Committee is a sub-committee of the Executive Committee. It was established in 2023 to further strengthen corporate governance of our sustainability agenda. The ESG Committee has a role in overseeing the integration of climate risks into core business strategy and decision-making. It also assesses and defines the material climate-related risks and opportunities for Heathrow and provides co-ordination, visibility and scrutiny of progress, data collection and monitoring and disclosure of ESG-related matters. The ESG Committee has delegated authority to approve key external ESG disclosure requirements on behalf of the Executive Committee. It provides recommendations to the Audit Committee and SORC. Further information can be found on page 117.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 104.

Management structure and approach

Our overall approach to climate change and our strategy is led by our Chief of Staff and Carbon who sits on the Executive Committee. The Chief of Staff and Carbon is supported by a dedicated carbon strategy team to provide clear direction and internal capability to shape and drive the climate agenda throughout Heathrow.

Ownership of the climate change agenda across all functions and at all levels within the Group is important for delivering our Heathrow 2.0 sustainability strategy and our Net Zero Plan. To support the agenda, the Heathrow 2.0 Committee acts as the primary governance forum for our Heathrow 2.0 sustainability strategy and broader sustainability agenda. The Heathrow 2.0 Committee represents all of the key business functions, with a responsibility to deliver aspects of our carbon and sustainability plans. For further details on our sustainability strategy please see page 34.

We have established a strategic Carbon and Sustainability programme to deliver the solutions required to meet our net zero goals. The programme is backed by over £250 million of capital investment. The Carbon and Sustainability Programme Committee comprises key Directors, who sponsor carbon reduction projects and are responsible for governing the activities in the programme and the associated carbon reduction benefits.

Our CFO co-chairs the Accounting for Sustainability's ('A4S') UK CFO Leadership Network and is a regular speaker at the A4S Academy to inspire and coach future climate leaders.

Our COO has performed the role of CEO of the UK's Jet Zero Council since 2021. The Jet Zero Council is a partnership between industry, academia and government to bring together ministers and chief executive officer-level stakeholders, with the aim of delivering at least 10% sustainable aviation fuel ('SAF') in the UK fuel mix by 2030. We work with the UK aviation sector and the UK Government through the Jet Zero Council as it represents a real opportunity to make progress in the UK.

STRATEGY

Climate change is the most significant mid to long-term risk facing the aviation sector and Heathrow. We are exposed to risks and opportunities as society makes the transition to net zero and responds to the physical risks arising from climate change. Our Commitment to Sustainable Growth, described from page 34, discusses the challenges and progress we are making against our strategy.

We are subject to economic regulation by the Civil Aviation Authority ('CAA'), which is designed to allow us to generate revenues which are sufficient to finance operating and capital expenditure requirements and to provide a rate of return. For further details of how we are economically regulated by the CAA see Regulatory Environment on page 17. As part of being economically regulated, ahead of each five-year regulatory period, we submit our capital expenditure proposals that are subject to approval by the CAA in consultation with airline customers. These include the required capital expenditure needed to deliver our Net Zero Plan, £250 million of which was requested and approved by the CAA in the H7 regulatory period that started on 1 January 2022, demonstrating regulatory support for our Net Zero Plan. We do not expect this support to be removed in future regulatory periods, since our Net Zero Plan supports the UK's legal requirement to achieve net zero by 2050. However, this is a critical assumption and supports our scenario analysis on page 84.

There are two key strategic considerations underpinning our climate-related risks and opportunities:

1. Whether future passenger numbers support the costs associated with the net zero transition. The number of passengers determines our revenues, which dictates whether we can support our capital expenditure requirements. Future passenger numbers could be affected by future legislation and decreased demand due to increased costs to fly or the impact of climate change at the destinations we serve.
2. Whether existing assets need to be replaced or upgraded ahead of their current expected end-of-life date, or new assets need to be built to deliver net zero or respond to the effects of a changing climate.

The scenario analysis section on page 84 sets out our current view of theoretical future passenger demand as well as impact of climate change on our existing assets.

The table on the following pages provides a qualitative assessment of the climate-related risks and opportunities at our airport over the following timeframes, which map to our typical financial, operational, investing and strategic planning time horizons:

- Short term (1 to 5 years): Aligned with our forecasting, budgeting and economic regulatory cycle.
- Medium term (5 to 10 years): Aligned with our asset management processes and our 2030 net zero goals to reduce carbon emissions, by up to 15% 'In the Air' and at least 45% 'On the Ground', from 2019 levels.
- Long term (exceeding 10 years): Aligned with our master planning process.

In evaluating the impacts associated with transition and physical climate risks, we have used lower, medium and higher categories within the table to signify the potential magnitude of these risks to our business.

CLIMATE SCENARIO
RISKS THAT ARISE IN A 1.5°C SCENARIO

IDENTIFIED RISK

Market and policy

RISKS:

The market for air travel does not grow as much or as quickly as we currently forecast because of:

- The level of pricing for carbon through taxation or carbon trading schemes.
- Delays in Government policy and therefore investment in decarbonising the aviation sector.
- Policy measures to limit the demand for aviation.
- Changes in consumer sentiment.

OPPORTUNITIES:

We can leverage Heathrow's hub model to maximise economic value.

WHAT THE RISK/OPPORTUNITY MEANS FOR HEATHROW

The UK policy landscape will largely determine how our market evolves in the future. A milestone net zero deal at International Civil Aviation Organisation's ('ICAO') General Assembly in 2022, following several sector level net zero commitments, demonstrated sector level backing for net zero.

Delivering the net zero transition will have an impact on the cost of air travel and the price of air fares, which in turn could affect passenger demand The total cost of the transition, including its interaction with SAF prices, is subject to analysis by the UK aviation sector coalition, Sustainable Aviation ('SA'). The pace of decarbonisation remains closely linked to timely progress in implementing Government policy.

There is also uncertainty about the continuing propensity to fly in a net zero world. Passenger surveys are increasingly rating climate change as an important issue for consumers and most people would consider making some changes to their flying behaviours. There is no evidence to suggest a shift in consumer behaviour today, but airlines and airports need to start demonstrating their sustainability credentials to assure flyers, as well as offer more tangible and simple solutions.

While climate change poses risks to Heathrow, it also creates opportunities. Heathrow's hub model optimises the economic value of an increasingly constrained economy-wide carbon budget because there are limited substitution options for long and ultra-long-haul trade in goods and services, justifying continued UK Government support for our future growth.

TIME FRAME:
MEDIUM TO LONG TERM

IDENTIFIED RISK

Technology

RISKS:

The adoption of new technologies to decarbonise aviation requires investment by Heathrow to gradually upgrade airport infrastructure and introduce operational changes that increase costs or impact revenues compared to our current business models.

OPPORTUNITIES:

We can seek to maximise technologies that have the least impact to airport infrastructure, such as SAF.

WHAT THE RISK/OPPORTUNITY MEANS FOR HEATHROW

SAF is a key element of the sector's net zero roadmap. Heathrow is actively promoting a rapid scale up and adoption of SAF to significantly cut emissions in the next decade. It is the primary solution to decarbonise flight by 2050. The Third ICAO Conference on Alternative Fuels ('CAAF') agreed in 2023 to reduce 5% greenhouse gas ('GHG') international aviation emissions with the use of SAF, low carbon aviation fuels and other cleaner aviation energies.

SAF can be used in existing infrastructure and aircraft and therefore there is no requirement for upgrades to airport infrastructure or operational changes.

We also intend to support the introduction of zero carbon emission aircraft, including those powered by electricity and hydrogen, which we expect to begin entering service at Heathrow in the late 2030s.The adoption of zero carbon emission aircraft will require more substantial changes to airport infrastructure and operations. Delivery of hydrogen to the airport by vehicle is expected to be viable until the 2040s, at which point hydrant and liquefaction infrastructure will likely be required on-site to handle the level of demand.

TIME FRAME:
MEDIUM TO LONG TERM

POTENTIAL FINANCIAL IMPACTS

Passenger numbers are the key driver of revenue at Heathrow. Long-term variations in passenger demand will impact future passenger charges. These variations could be caused by the cost of transition and the impact on air fares, or by Government policy if it deemed the sector too slow to decarbonise.

If Heathrow could not achieve its long-term projections, there could be a material impact on future revenue, profitability and operating cash flows. For further details refer to the scenario analysis section on page 84.

MAGNITUDE OF POTENTIAL IMPACT:
HIGHER

THE ACTION WE ARE TAKING

Setting our Net Zero Plan to cut emissions by 2030 and beyond and establishing a strategic programme to deliver solutions required at Heathrow.

Working with the wider aviation sector to decarbonise aviation, by delivering the UK sector's net zero aviation roadmap.

Participating with other aviation companies in the UK Government's Jet Zero Council, to support the delivery of the UK's Jet Zero Strategy which includes a 10% SAF mandate by 2030 and five UK SAF plants in construction by 2025 to build a domestic UK SAF supply.

Establishing a Heathrow SAF incentive to create a demand signal and encourage the uplift of SAF at Heathrow. In 2023 Heathrow's SAF incentive targeted the use of 1.5% SAF at the airport and the 2024 incentive will increase this to 2.5%.

Continually refining our passenger forecast modelling to better understand the impact of climate change on passenger demand.

POTENTIAL FINANCIAL IMPACTS

The adoption of second generation, zero carbon emission, aircraft could require substantial new infrastructure, together with substantial electricity demand, thereby impacting capital investment at the airport.

However, this transition will take place in the medium to long term. While we project the carbon savings by 2050 to be relatively modest, there could still be a significant number of aircraft movements. The nature of our long-term capital programme means that planned investment in infrastructure, to support new zero carbon emission aircraft, needs to be supported through our economic regulation by the CAA. While any such investment would be at the request and to the benefit of our airline customers, it is not guaranteed. We will continue to assess the associated infrastructure requirements which will inform our ongoing assessment of magnitude.

MAGNITUDE OF POTENTIAL IMPACT:
LOWER

THE ACTION WE ARE TAKING

Delivering our long-term energy strategy which sets out the energy needs for our airport to 2050, including electricity capacity and distribution upgrades and a roadmap for delivering hydrogen to enable the introduction of zero carbon emission aircraft from the late 2030s. This will inform our future capital plans for agreement with the CAA and our airline customers.

Heathrow is a partner in the Liquid Hydrogen Gas Turbine ('LH2GT') project, a follow-on study from Project Napkin, which will assess the detailed considerations for introducing hydrogen to Heathrow.

CLIMATE SCENARIO
RISKS THAT ARISE IN A 1.5°C SCENARIO (CONTINUED)

IDENTIFIED RISK

Reputation

RISKS:

Investors prioritise investment in businesses that have smaller climate impacts affecting access to finance at affordable rates.

OPPORTUNITIES:

Heathrow manages financing risks by leveraging favourable terms through a commitment to decarbonisation.

WHAT THE RISK/OPPORTUNITY MEANS FOR HEATHROW

We benefit from accessing a wide range of investment sources which allows us to invest in improving the airport whilst keeping our costs affordable. Not decarbonising quickly enough, particularly compared to our peers, could impact investor confidence, and affect our ability to access finance and our cost of borrowing.

While there is a financing risk, there is also an opportunity in demonstrating action to decarbonise to make Heathrow appealing for favourable financing terms from investors.

TIME FRAME:
SHORT TO MEDIUM TERM

POTENTIAL FINANCIAL IMPACTS

The cost of borrowing is now more closely tied to efforts to reduce carbon emissions. If our business fails to meet stakeholder expectations on climate change performance, we risk deterring investors and may face higher borrowing costs. Access to affordable finance is contingent on aligning with debt investors' decarbonisation expectations.

However, there is currently no indication that investor confidence is impaired, as evidenced by potential shareholder changes expected in 2024. We continually appraise our reputation risk through regular dialogue with investors and credit rating agencies.

In our current Sustainability Linked Bond arrangement, the maximum premium for failing to meet our emissions commitments is capped at £6.5 million, which is 1% over the life of the bond. We view this as indicative of potential climate-related costs.

MAGNITUDE OF POTENTIAL IMPACT:
LOWER

THE ACTION WE ARE TAKING

Launching our Sustainability Linked Bond and linking our debt to delivery of our Net Zero Plan.

Continuing to engage with the investment community on the delivery of our Net Zero Plan and performance.

CLIMATE SCENARIO
ADDITIONAL RISKS THAT ARISE IN A 4.0°C SCENARIO

IDENTIFIED RISK

Property and operations

RISKS:

Chronic and acute changes to the weather and climate may affect airport infrastructure and operations.

OPPORTUNITIES:

Where critical to airport operations, we can design new capital programmes which take into account future likely climate change scenarios.

WHAT THE RISK/OPPORTUNITY MEANS FOR HEATHROW

An increase in flood risk and extreme hot temperatures are assessed as the most significant risks to our airport infrastructure and operations. Changes to precipitation patterns, including high intensity events, could result in exceedance of drainage infrastructure capacity associated with surface flooding and groundwater flooding, leading to disruption to flight schedules and damage to buildings, mobile assets, and airfield infrastructure. High temperatures, both heatwaves and maximum temperature days, could affect the structural integrity of airport structures and infrastructure, the thermal comfort of staff and passengers in terminal buildings, aircraft on stands and outdoor workers, and lead to delays in construction or maintenance works and operational activity.

Heathrow has invested heavily in measures to improve the resilience of the airfield in the last decade. Those systems and processes provide continued mitigation which will continue to be assessed against projected climate risks. Our investment in delivering net zero will also provide climate adaptation. The deployment of a new pre-conditioned air solution to keep aircraft cabins cool on the ground and a new zero carbon heating and cooling network for the airport are both being designed to meet future climate conditions.

TIME FRAME:
MEDIUM TO LONG TERM

IDENTIFIED RISK

Network and destinations

RISKS:

Climate change may result in physical, social and economic changes that cause permanent changes to the global aviation network and the destinations that Heathrow serves.

OPPORTUNITIES:

We can leverage Heathrow's hub model to maximise economic value.

WHAT THE RISK/OPPORTUNITY MEANS FOR HEATHROW

Adverse weather conditions such as rainstorms and high winds could become more frequent, unpredictable, and more extreme. This may lead to higher levels of damage and disruption at destinations, longer recovery times and more flight delays and cancellations which would impact our flight schedule.

Where unfavourable flying conditions are experienced regularly, this may increase fuel burn and affect the attractiveness or practicality of some flight paths.

The socio-economic impacts of climate change would affect where people fly to in the future if efforts to limit climate change are not successful and this would lead to more material impacts for Heathrow and the aviation sector. In the 4°C climate scenario, climate change could alter the existence, attractiveness or viability of some destinations reducing demand for those routes.

Examples of destinations at most risk include those that would be impacted by sea level inundation, high temperatures, wildfire, desertification, drought and the loss of important local or regional conditions that are important features for attracting visitors, such as underlying economic activity and local and regional supply chains, snow cover at winter sports destinations or the existence of corals in tropical destinations.

The scale of impact may be limited to some degree by investment at destinations to mitigate the impacts, where that is possible and affordable. The global shift in travel patterns may see growth in traffic to different destinations and new markets.

Heathrow's position as a hub in the global aviation network and our broad route network can help our airport to adapt to the significant effects that climate change will bring to the travel industry. Our current network of destinations includes many large population and business centres that will remain important destinations and are likely to be better placed to invest in mitigation.

TIME FRAME:
LONG TERM

POTENTIAL FINANCIAL IMPACTS

Heathrow could see impacts on infrastructure and operations from increased flood risk and heatwaves, potentially affecting some aspects of airport operations.

The nature of our long-term capital programme means that investing in the necessary equipment and infrastructure needs to be supported through our economic regulation by the CAA. While any such investment would be at the request and to the benefit of our airline customers, it is not guaranteed. We are continuing to develop and refine our assessment of physical risks which will inform our ongoing assessment of financial materiality.

MAGNITUDE OF POTENTIAL IMPACT:
HIGHER

THE ACTION WE ARE TAKING

Completing a full climate risk assessment every 5 years to understand how climate changes could impact Heathrow.

Completing a detailed assessment of the resilience of our asset base to test the current level of mitigation and inform long term master planning and investment planning. This includes ongoing improvements to drainage modelling and stress testing to understand the impact of significant rainfall events.

Updating asset standards to ensure asset and infrastructure replacement meets the level of mitigation necessary for future expected climate conditions.

Engaging and planning with key stakeholders on climate resilience that supports operations at Heathrow.

POTENTIAL FINANCIAL IMPACTS

Adverse weather conditions could lead to increased fuel burn, airline operating costs and unpredictability. The impact on Heathrow's network remains uncertain.

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

MAGNITUDE OF POTENTIAL IMPACT:
HIGHER

THE ACTION WE ARE TAKING

Working with wider aviation sector to understand the effects of climate change on the aviation network and the markets that drive passenger demand across our network of destinations.

Continuing to assess how climate change could impact our route network and passenger growth.

Scenario analysis

We use scenario analysis to evaluate the climate-related risks to our strategy and business model.

Historically, our approach concentrated on selected representative scenarios published by public bodies, with the UK Climate Change Committee's ('CCC') Sixth Carbon Budget 'Widespread Innovation' scenario acting as a central scenario for Heathrow. In the current year, we have refined our approach to transition risk to align more closely with our Net Zero Plan which in turn aligns as closely as possible with the central scenario of the CCC's Sixth Carbon Budget, reflecting current policy and market conditions, as well as the latest insights and trends in the aviation industry related to decarbonisation. While primarily qualitative, our scenario analysis, particularly in relation to transition risks, integrates and is guided by the outcome of quantitative assessments we have developed on the impact of transition risks on passenger demand for our airport.

Our scenario analysis is based on two distinct climate scenarios which are set out in this section:

1. **Transition risk:** A 1.5°C scenario that aligns with our Net Zero Plan and reflects global aviation sector and UK climate goals, and the potential demand impact that flows from these.
2. **Physical risk:** A 4°C scenario which allows us to consider the impacts from more extreme effects of climate change on our airport infrastructure and operations and considers the broader socio-economic effects on our business in a significantly changed environment compared to today.

We have used these two scenarios, as they are sufficiently varied to provide a valuable stress test of the resilience of our business to the potential outcomes of the extreme end of transition and physical risks respectively. Considering the nature of our business, our scenario analysis evaluates transition risks in the short, medium and long term while physical risks are assessed in the medium to long term.

While our current qualitative scenario approach serves our internal decision-making needs and aligns with the disclosure requirements of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. We anticipate evolving toward a more advanced quantitative method as our understanding of climate risks deepens and the quality of available data improves.

SCENARIO FOR EVALUATING TRANSITION RISKS:

In evaluating transition risks, we apply the 1.5°C or 'low carbon future' scenario, closely aligned with Heathrow's Net Zero Plan. This approach incorporates assumptions that closely align with transition scenarios outlined by the CCC's Sixth Carbon Budget, as referenced in Heathrow's published Net Zero Plan, with the exception of SAF utilisation.

Anticipating a sustained increase in SAF adoption, this scenario projects 10% SAF utilisation by 2030, in line with Government targets, rising to 90% uplift at Heathrow Airport by 2050. The SAF uptake assumption remains consistently applied across our various publications, including the Heathrow Net Zero Plan, Heathrow 2.0 Connecting People and Planet and the Heathrow Sustainability-linked Bond Framework. A SAF uptake level of 90% is guided by the findings of the 'Mission Possible Report' published by the Energy Transitions Commission ('ETC') in November 2018, which concluded that SAF could potentially meet 100% of aviation's fuel needs by 2050.

The SAF uptake level is higher than the 'Widespread Innovation' scenario, published by the CCC, which has been used in our qualitative scenario analysis in previous disclosures. While SAF uptake at this level is ambitious and represents a more rapid pace of decarbonisation of emissions from aircraft, we are of the view that it would likely depress passenger numbers and represent, on balance, a more conservative view. The scenario assumes that the UK Government delivers on its SAF mandate and its commitment to implement a revenue certainty mechanism, to enable UK investment and the planned five UK SAF production facilities, all under construction by 2025.

This scenario is contingent on the assumption that the UK successfully achieves its net zero objectives, with the decarbonisation of the aviation sector being propelled by technological advancements and effective and supportive policies in the UK, US, EU and other countries, along with sustained public support.

Furthermore, the scenario anticipates continued adoption of lower-carbon technologies through UK investments in renewables, hydrogen, nuclear power and grid infrastructure. Additionally, the scenario assumes the operation of three runways at Heathrow Airport and unconstrained terminal capacity. However, it does not encompass the potential impact of the net zero transition on Gross Domestic Product ('GDP') growth. We provide further insights into the resilience of our business under this scenario in the business resilience section.

SCENARIO FOR EVALUATING PHYSICAL RISKS:

We assessed potential physical risk impacts using the Representative Concentration Pathways ('RCP') from the Intergovernmental Panel on Climate Change ('IPCC') or 'business as usual' scenario. This scenario assumes global emissions persist at current rates, resulting in heightened physical impacts of climate change, such as rising temperatures and increased extreme weather events that could disrupt our global value chains and operations. In our assessment, we considered the geographical position of our airport, the hub nature of our operations and the diversity of our network.

While transition risks are relatively constrained in this scenario, we have also considered the impact of certain transition assumptions including low SAF uptake of 5% by 2030 and 20% by 2050, low adoption of zero emissions aircraft and unconstrained airport terminals capacity. We continue to enhance our ongoing efforts to understand the interrelationships between transition and physical risks in this scenario. The resilience of our business to this scenario is explained in the business resilience section opposite.

Business resilience assessment

Our evaluation of climate-related risks and opportunities using scenarios demonstrates the resilience of our current strategy and business model spanning short, medium and long-term horizons.

We evaluated our resilience to transition risks, focusing on the short, medium and long term. The short to medium-term period includes the 2030 timeframe for our Net Zero Plan goals, where we aim to reduce carbon emissions by up to 15% 'In the Air' and at least 45% 'On the Ground'. The demand for passenger travel through our airport is a fundamental revenue driver alongside airport charges regulated by the CAA, our economic regulator.

According to our evaluation, the 1.5°C scenario indicates a stable, albeit modest, compound annual growth rate ('CAGR') in passenger demand of around 2% until 2050. We used 2024 as the reference year as this is when we expect travel demand through our airport to return to pre-COVID levels. Our transition scenario analysis also assesses the general resilience of our business to transition risk in light of our funding obligations. Considering the assessed level of travel demand through our airport, we consider our business to be resilient in the short, medium and long term under this scenario, including on an expanded basis with a third runway.

In our 4°C scenario, we have considered the medium and long-term time frame in assessing our business's resilience to physical risks, particularly those associated with potential extreme weather impacts on our infrastructure and operations. Despite challenges in evaluating such risks, due to the uncertainty linked with extended timelines, our assessment offers valuable insights. In addition to considering our airport's location, we are confident in our business's relative resilience. We are positioned as a global hub with a diverse route network providing a platform to mitigate exposure risks.

Our mitigation measures are designed to reduce the impact of the transition and physical risks under the two presented scenarios.

While scenario analysis is not conducted primarily for asset valuation purposes, given that scenarios inherently depict hypothetical future conditions, we have integrated pertinent key assumptions in evaluating the recoverability of specific balance sheet items. Further details on this can be found in the climate change section of Heathrow's accounting policies within the financial statements and asset impairment notes. The judgments applied to these balance sheet items are regarded as significant and critical accounting judgments. The consideration of these climate change assumptions in our asset valuation does not suggest any issues regarding the recoverability of these assets.

Impacts of climate considerations on our financial processes

Climate change influences our financial processes, covering financing, forecasting, budgeting, economic regulatory processes, capital investment, insurance decisions and master planning.

There is growing emphasis from investors on sustainability impacts, capital availability and costs. In July 2023, we issued our inaugural Sustainability-Linked Bond, integrating Sustainability Performance Targets ('SPTs') that combined address our entire carbon footprint and align with a science-based 1.5°C carbon emissions reduction trajectory. Subsequently, in December 2023, we strategically linked our existing Revolving Credit Facility and Working Capital Facility to sustainability measures, encompassing carbon intensity both 'In the Air' and 'On the Ground', alongside gender and ethnicity representation measures.

We maintain ongoing engagement with our economic regulator, the Civil Aviation Authority ('CAA'), emphasising the necessity of making investments that contribute to climate adaptation and mitigation. We anticipate that such initiatives will continue to receive support as part of the regulatory settlement process.

RISK MANAGEMENT

Climate risk management is embedded within our overall Enterprise risk management framework. We consider both transition and physical risks. We have adopted similar terminology, clarified our approach to both transition and physical risks and report using a consistent format. In 2022, we aligned our functional risk registers in the same way, ensuring that climate-related risks are managed and reported in a consistent way and making it easier for us to assess climate-related risks thematically.

See Our Approach to Risk Management on page 64.

METRICS AND TARGETS

Decarbonising aviation is the principal way to mitigate the impact from our most material climate risks. Heathrow has set ambitious targets to cut carbon emissions and a plan to deliver these. We track and report our performance, in reducing absolute carbon emissions each year, through our carbon footprint which is detailed from page 41.

We have set Sustainable Growth as one of our four strategic priorities. In 2017, our Heathrow 2.0 Sustainability Plan set out how we will deliver this priority. In February 2022, we published an update to focus on our most material issues, including our Net Zero Plan, which explains how we will cut carbon emissions working with the wider aviation industry. We continue to develop and refine our approach based on the latest research, trends and evidence and delivering our plan and measuring performance.

Our Net Zero Plan and targets

Our Net Zero Plan sets a carbon reduction trajectory to 2050 and covers all the emissions in our carbon footprint 'In the Air' and 'On the Ground', including cruise emissions from departing flights, as well as the Landing and Take-off emissions from flights in our immediate airspace up to 3,000 feet. Our plan includes two 2030 goals to focus on cutting carbon emissions this decade which are supported by science-based targets:

- Up to 15% cut in carbon emissions 'In the Air' using a 2019 baseline. This goal is supported by a customer engagement target, validated by SBTi in March 2023, stating that 67% of Heathrow's airline customers by carbon emissions, covering the Scope 3 carbon emission category 'use of sold products and services', will set science-based targets by 2027.
- At least 45% cut in carbon emissions 'On the Ground' using a 2019 baseline. This goal is supported by the SBTi validation obtained in March 2023, whereby we commit to reduce our 'On the Ground' emissions, excluding those from the supply chain, by 46.2% by 2030 from a 2019 baseline. The reduction of supply chain emissions has been validated using a supplier engagement target, stating that 67% of Heathrow's suppliers by emissions will set science-based targets by 2027, covering the Scope 3 carbon emission categories of 'purchased goods and services' and 'capital goods'.

Our plan aims to meet or exceed the carbon emissions trajectory of the CCC's 'Balanced Net Zero' scenario for emissions included in its recommendation to the UK Government for the Sixth Carbon Budget. The plan supports the aviation industry goal to achieve net zero emissions by 2050 and the roadmap to get there.

The following table provides a summary of the goals, targets and metrics that guide our assessment of progress towards meeting our 2030 goals. There are both direct and indirect connections between our goals and targets and the identified climate-related risks.

Measuring carbon performance

Performance against our net zero trajectory, except for the carbon intensity metric associated with the Sustainability-Linked Loan in the near term, is measured in absolute carbon emissions ('CO_2e') and reported annually in our carbon footprint. We follow the Airport Carbon Accreditation Programme and GHG Protocol standards to calculate our carbon footprint. Our carbon footprint is assured by an independent third party based on a limited level of assurance in accordance with International Standard on Assurance Engagements ('ISAE') 3000 Revised. Our carbon footprint, including scope 1, 2 and 3 emissions can be found on page 41.

Carbon offsets and removals

Achieving zero emissions, particularly in areas such as air conditioning and use of refrigerant gases, where advancements in new technologies are yet to be realised, remains a significant challenge. We use high-quality carbon offsets to compensate for emissions in the absence of zero carbon alternatives. Our strategic investments in nature-based removals like peatlands and woodlands play a critical role in offsetting such residual emissions.

Management remuneration

To empower our workforce and give our colleagues a stake in delivering our Net Zero Plan, we have incorporated carbon performance into our Share In Success ('SIS') Grant (long-term incentive plan) on reducing carbon emissions at the airport both 'On the Ground' and 'In the Air'. Such carbon performance measures account for a 15% weighting in both Senior Management and Executive Committee awards within the 2023 SIS program. For further information, please refer to page 130.

Goals	Targets[2]	Metrics used	Reference for details
Cut at least 45% carbon emissions 'On the Ground' by 2030 using a 2019 baseline. Associated with our Sustainability-Linked Bond.[1]	Cut 49% by 2030 from surface access.	Greenhouse gas emissions ('GHG') – scope 1,2 and 3.	Page 41
	Cut 87% by 2030 from airport vehicles.	Carbon intensity on the ground. This metric is associated with our Sustainability-Linked Loan.	Page 41
	Cut 35% by 2030 from our supply chain.	Energy usage in megawatt hour ('MWh'). This metric is associated with Streamlined Energy and Carbon Reporting ('SECR').	Page 41
	Cut 39% by 2030 from buildings and infrastructure.	Carbon offsetting.	Page 40
Cut up to 15% carbon emissions from flying, carbon 'In the Air', by 2030 using a 2019 baseline. Associated with our Sustainability-Linked Bond.	Cut up to 1% by 2030 through more efficient operations and modernising airspace.	Greenhouse gas emissions – scope 3.	Page 41
	Cut up to 8% by 2030 through improvements to conventional aircraft.	Carbon intensity in the air. This metric is associated with our Sustainability-Linked Loan.	Page 41
	Cut up to 7% by 2030 through use of Sustainable Aviation Fuels SAF.	Carbon removals and offsetting.	Page 39

[1] For the purposes of our Sustainability-Linked Bond Framework, the Sustainability Performance Target ('SPT') is 46.2% reduction.
[2] Represents solutions to achieve SPTs and KPIs for the purposes of our Sustainability-Linked Bond Framework.

Delivering our Net Zero Plan

Our strategic Carbon and Sustainability programme, launched in 2022, is backed by £250 million of capital investment and wider business change and management activity. It will deliver our Net Zero Plan through the H7 regulatory settlement period and keep us on track to hit our 2030 goals. The focus in H7 includes the following key projects and initiatives that underpin the delivery of our carbon trajectory before 2026:

'IN THE AIR'

- Investing in the infrastructure improvements at Heathrow necessary to deliver airspace modernisation and improving the efficiency of aircraft on the ground. This includes a replacement of the pre-conditioned air service we already provide on our aircraft stands, which cools aircraft when parked as an alternative to running on board engines, to increase connection rates. A preferred solution has been trialed on two aircraft stands ahead of the start of a wider roll out across airport terminals.
- SAF is the key solution to decarbonise aviation. Heathrow works with the UK aviation sector and the UK Government through the Jet Zero Council to progress the scaling of SAF supply in the UK. The UK's Jet Zero Aviation strategy has set a mandate for 10% SAF on departing flights by 2030 and this sends a clear demand signal for scaling production of the fuel. The Jet Zero strategy also included a commitment to five UK SAF plants, in construction by 2025. In parallel, the Government has amended its Energy bill and announced, in September 2023, a commitment to open a consultation on options to implement a revenue certainty mechanism to de-risk investment in the domestic SAF market. The Jet Zero Council is working to bridge the gap, while the mechanism is developed, to meet its commitment for the five UK SAF plants to be under construction by 2025. Timely implementation by Government will be required to maximise the growth rate of the UK SAF market. Heathrow launched a SAF incentive scheme which provides a financial incentive for airlines to uplift SAF at our airport. In 2023, the incentive aimed to achieve 1.5% SAF used across all flights at Heathrow. In 2024, we will raise the level to 2.5% to further grow the volumes of SAF flowing into aircraft using our airport.

'ON THE GROUND'

- Investing to deliver our surface access strategy, to increase the proportion of colleagues and passengers that choose to use more sustainable modes of transport to travel to and from Heathrow, including upgrades to active travel infrastructure around the airport to encourage walking and cycling. We also plan to invest in electric vehicle charging infrastructure to meet demand from different vehicle user groups for charging at the airport. A mobile charging solution for colleagues has been trialed to provide an offering ahead of the roll out of permanent charging sites around the airport.
- A balanced scorecard has been developed and implemented across our first-tier suppliers which establishes clear carbon goals. Heathrow is trialing low carbon concrete in an airport setting to build confidence in the performance of products as a step to cutting emissions from construction, which is a material source of emissions from our supply chain.
- Delivering ultra-rapid electric vehicle charging hubs to accelerate the transition of airport operational vehicle fleets to zero emission vehicles. In 2023, we delivered three ultra-rapid charging points and two rapid charging points, as the first instalment in an ongoing programme of electric vehicle ('EV') charger development now available for colleague and airline use. Our first ultra-rapid charging hub will go live in 2024, with more sites to roll out within the H7 period to provide airport wide coverage.
- Completing the design and solutions pilot for a new zero carbon heating and cooling system at Heathrow, enabling Heathrow to switch of gas for heating by the mid-2030s, and building in climate adaptation by ensuring the operating range of the solution can cope with future climate conditions.
- Completing a net zero energy strategy that sets out the energy requirements for the airport to deliver our Net Zero Plan and the necessary upgrades to Heathrow's electricity distribution network and supply to meet the expected growth in electricity demand. The strategy also considers the energy requirements for future hydrogen supply, to safeguard and plan for the infrastructure required to enable the introduction of zero emission aircraft from the late 2030s.

As explained in the investment plans above, we don't anticipate the net zero investment plan to impact the accounting of our existing assets.

Our Net Zero Plan can be found at **www.heathrow.com/Our-Carbon-Strategy.**

Adapting our airport to climate effects

Heathrow completes a climate risk assessment and adaptation report every five years. The assessment considers the physical risks that Heathrow faces and is a UK Government requirement for Critical National Infrastucture, including airports. Our last assessment was published in 2022. We have integrated the risks identified into our internal risk management framework. Risks are owned and managed by individual functions. In 2023 we have built on our latest risk assessment through a threshold-based assessment of our asset base, to build an understanding of the resilience of individual asset systems to the climate conditions that are predicted by international and UK climate models. We will further develop this assessment in 2024 by conducting detailed modelling, focusing on the potential impacts from extreme rainfall events and extreme wind events. The output from that work will provide a basis to assess where current mitigations should be strengthened. We will also consider the resilience of critical assets and services operated by other organisations that are critical to running our airport, with a focus on critical utilities and surface access.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

Pursuant to the provisions outlined in sections 414CA and 414CB of the Companies Act 2006, which specify the criteria for non-financial and sustainability reporting, the following table summarises Heathrow's alignment with the required reporting:

Reporting requirement	Where to find in the Annual Report	Page
Environmental matters	Our commitment to sustainable growth	34 - 51
	Net Zero Aviation	38 - 40
	Carbon footprint and greenhouse gas emissions	41 - 43
	Nature Positive Plan	47
Climate-related financial disclosures	Climate-related financial disclosures	74 - 88
Colleagues	Employment policies	143
	Health and safety	68, 97 - 98
	Equality, diversity and inclusion	49, 97 - 98
Social matters	A great place to live and work	44 - 49
	Engagement: Communities and the Environment	96 - 97
Human rights	Modern slavery statement	99
Anti-corruption and anti-bribery	Anti-bribery	119
	Whistleblowing policy	124 - 126
Description of our business model	Our business	14 - 19
Principal risks and uncertainties	Our principal risks	68 - 73
Non-financial key performance indicators	Our key performance indicators	10 - 13
	Performance against strategic priorities	30 - 33
	Our commitment to sustainable growth	34 - 51
	Alternative performance measures ('APMs')	209 - 211

SECTION 172 (1) STATEMENT

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, they must have regard to the range of factors set out in section 172(1)(a) – (f) in the Companies Act 2006.

In discharging our section 172 duty we, the Directors of the Company, have regard to such factors and take them into consideration when decisions are made. We also have regard to other factors which we consider relevant to the decisions being made. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's vision, purpose and values together with its strategic priorities, as shown in our Strategic Framework on page 26, and having a process in place for decision-making, we aim to ensure that our decisions are consistent and predictable.

As is normal for large companies, we delegate authority for day-to-day management of the Company and its subsidiaries. We do this through the Executive Committee. The Executive Committee is responsible for the development of strategy, related policies and their execution. The Executive Committee then engages the HAHL Board1 in approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the HAHL Board. We ensure that when we are applying these group policies, we have due regard to our fiduciary duties and responsibilities. The Executive Committee also reviews health and safety, financial and operational performance, legal and regulatory compliance, business strategy, key risks, stakeholderrelated matters, diversity and inclusivity, environmental matters and corporate responsibility. The Board of the Company includes two members of the HAHL Board and all the members of the Executive Committee, which enables the dissemination of core information about the business of the HAHL Group. There are also directors of the Company that attend the Audit Committee, Sustainability and Operational Risk Committee and Risk and Assurance Committee, which helps to provide foresight of the key principal risks affecting the HAHL Group and specifically those affecting the Company.

The Company's key stakeholders are its passengers, communities and the environment, Team Heathrow colleagues, airlines, investors, suppliers and commercial partners, and regulators. The views of, and the impact of the Company's activities on, those stakeholders are an important consideration for the Directors when making relevant decisions for the HAHL Board's approval. While there are cases where the Executive Committee itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both our takeholders and Heathrow Airport Limited means that generally our stakeholder engagement best takes place at the Heathrow Airport Limited (operational) or HAHL Group level with the Company's stakeholders, so as to encourage the Directors to understand the issues to which they must have regard, please see the HAHL stakeholder engagement table starting on page 96.

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

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

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 104.

KEY DECISION MADE BY THE DIRECTORS OF THE COMPANY

Board Decision	Stakeholders	Considerations	Outcome
Capital Allocation	Investors Passengers Airlines	Each quarter, the Directors of the Company consider the Group's capital structure and capital allocation when proposing dividends. Details of our approach to capital allocation are set out on page 60 where we explain our long-term approach to allocating capital and the payment of dividends. In making this decision the Board considers a range of factors. These include the long-term viability of the Company, its expected cash flow and financing requirements, the strength of the Group's balance sheet, the balance of current and forecast distributable reserves (including stress-testing to key risks), the potential impact on credit metrics, the common terms of financing agreements including trigger events and the ongoing need for the business to support the safe and efficient operations over the long term.	No dividends were recommended by the Directors of the Company in 2023.

KEY DECISIONS MADE BY THE HAHL BOARD

Board Decision	Stakeholders	Considerations	Outcome
Next Generation Security Programme	Passengers Team Heathrow Colleagues Airlines Investors Suppliers and Commercial Partners Regulator	The HAHL Board considered the progress of Heathrow's Next Generation Security Programme (the 'Programme') which aims to deliver upgraded security infrastructure to comply with the Department for Transport's ('DfT') Next Generation Security Checkpoint mandate that requires the installation of new CT x-ray and body scanners by 1 June 2024. The HAHL Board recognised this as an opportunity to transform Heathrow's existing security infrastructure for the benefit of passengers, colleagues, and airline partners. The Programme experienced a net 3-year delay as a result of the COVID pandemic and therefore a 'Close the Gap' review was carried out to identify opportunities to accelerate implementation of the Programme. The HAHL Board considered the 'Close the Gap' outcomes and the following 4 areas that enabled Heathrow to accelerate the Programme schedule, whilst maintaining acceptable service levels for passengers and colleagues:	The HAHL Board accepted the projected levels of compliance delivered by the Programme and the recommendation to share the accelerated plans formally with the DfT. This decision will ensure Heathrow: • Maintains operational capacity and mitigate revenue risk for the period of the extension. • Protects acceptable levels of service to passengers, accepting a potential reduction in operational resilience levels during accelerated construction. • Reduces exposure to reputational damage and/or possible financial penalties. • Maintains productive dialogue with the DfT to agree an approach for any outstanding areas of non-compliance.

KEY DECISIONS MADE BY THE HAHL BOARD (CONTINUED)

Board Decision	Stakeholders	Considerations	Outcome
		1. Decoupling construction mobilisation and capital governance. 2. Maximising passenger construction phasing by reducing operational resilience. 3. Accepting a different passenger experience during peak periods through the transition period. 4. Increased planning flow rates by 10%. Management advised that these measures would support accelerated deployment and recognised that, due to the aggressive implementation plan proposed, there was an increased risk of a lower level of resilience in the operation, which, if service levels deteriorated too far, could lead to a delay in the delivery of the overall programme. The DfT were consulted on the plans and provided feedback on levels of projected compliance and opportunities to improve the schedule. A robust governance process was put in place with airline stakeholders, with regular forums to help shape deployment plans and balance the wide range of stakeholder requirements. After careful consideration, the HAHL Board endorsed management's recommendation to adhere to the improved Programme delivery plan and operational assumptions. Heathrow would continue to work with the DfT to regularly review progress and explore how we can address any shortfalls in compliance while the remaining new security lanes are installed.	
ULEZ Extension Mitigation	Community and the Environment Team Heathrow Colleagues Airlines Suppliers and Commercial Partners	The HAHL Board considered the key challenges and impacts presented by Transport for London's decision to extend the Ultra Low Emission Zone ('ULEZ') on 29 August 2023. One of the key challenges was to ensure that the 10,000 Team Heathrow colleagues driving ULEZ non-compliant vehicles could still travel to work affordably without the risk of them seeking alternative employment. We sought to provide alternative means of commuting for these impacted colleagues, whilst seeking to embrace the spirit of the ULEZ expansion to improve air quality and congestion, which aligns with our reputation as an environmentally conscious business. After consultation and careful consideration, the HAHL Board approved the introduction of the following key mitigation measures: • Increased investment in public transport options to the airport (targeted at areas with high density of Team Heathrow residents). • A car share scheme. • Car purchase schemes (loan and salary sacrifice). • A colleague ULEZ car park. The key decisions relating to ULEZ mitigation were approved by the Executive Committee before being presented and adopted by the HAHL Board. Progress was monitored through a cross-functional Working Group, chaired by the Head of Surface Access Strategy, with any escalations approved by the Surface Access Director.	The outcome of the decisions made by the HAHL Board is that Heathrow, the Airlines and all of the Team Heathrow supply chain partners have been able to continue to support the operation with a fully resourced team and have not experienced significant staff retention issues. The introduction of the agreed initiatives to support colleagues with affordable commuting contributed towards overall wellbeing and prevented a potential loss of workforce leading to resourcing issues. The mitigation measures introduced are considered to be in the long-term interest of Heathrow as they will lead to an increase in colleagues commuting via public transport, which in turn will support Heathrow's sustainability strategy (set out in Heathrow 2.0) and meet the targets published in our H7 Surface Access Strategy.

Board Decision	Stakeholders	Considerations	Outcome
		Stakeholder views were discussed across various forums, in particular through the Surface Access Airline Stakeholder Committee ('SAASC'), which is chaired by the Surface Access Director. There was strong support for the mitigation proposals across all forums, due to concern for employees and our ability to operate the airport. The only unresolved discussion with stakeholders relating to the decision involved the length of time which the colleague ULEZ car park would stay operational, and how the costs would be recovered. This is being discussed with the airport community who pay for colleague car park usage and is still ongoing.	
Regulation: Appeal of the Civil Aviation Authority's ('CAA') Decision on H7	Passengers Team Heathrow Colleagues Airlines Investors Suppliers and Commercial Partners Regulator Government	In March 2023 the HAHL Board received and considered the CAA's Final Decision on the H7 regulatory settlement. This Final Decision document set a maximum allowable yield of £21.03 (2020 prices) which Heathrow could charge for use of the airport from 2024 to 2026. It also set out the CAA's Final Decision on the Licence and associated regulatory obligations applicable for the same time period. The HAHL Board considered the impact of this decision on Heathrow's ability to continue to provide the right level of service and investment across the H7 period. It also considered the impact of the proposed framework on Heathrow's ability to deliver the required investment in a timely manner over H7. In April 2023, the HAHL Board took the decision to appeal the CAA's Final decision to the Competition and Markets Authority ('CMA'). The decision to appeal was considered to be in the long-term interests of Heathrow and its stakeholders as the charge and framework set by the CAA could serve to: • Limit our ability to deliver the level of service requested by passengers and airlines due to the level of the charge and the requirement to return a large proportion of revenues earned in 2020 and 2021 through the 'AK' correction factor. • Limit our ability to invest due to lower than required cost of equity and debt. • Limit our ability to deliver capital investments efficiently due to the increase in required governance. The appeal was filed on 17 April 2023 and requested that the CMA review the CAA's decision on the following key areas: • The cost of equity set for H7. • The cost of debt set for H7. • The CAA's failure to apply a RAB adjustment following the impact of COVID-19. • The CAA's decision to apply an 'AK Factor' to correct for recovery against the yield in 2020 and 2021 due to the impacts of COVID-19. • The CAA's decision to implement a new, increasingly burdensome, capital incentives regime for H7.	The appeal concluded on 17 October 2023. In its decision, the CMA remitted three issues to the CAA for resolution. These were: • Upholding Heathrow's appeal on the application of the AK Factor given the exceptional circumstances caused by the COVID-19 pandemic. • The premium on index-linked debt applied by the CAA which it considered had not been properly evidenced. • The passenger forecast shock factor which the CMA considered may not have been fully checked by the CAA. The full impact of these remittals is not yet known and will become evident through 2024 when the CAA consults on its approach and the impact on the maximum allowable yield.

KEY DECISIONS MADE BY THE HAHL BOARD (CONTINUED)

Board Decision	Stakeholders	Considerations	Outcome
Quarterly review of progress on Sustainability and Carbon	Passengers Community and the Environment Team Heathrow Colleagues Airlines Suppliers and Commercial Partners Investors Regulator Government	During the year, the HAHL Board regularly reviewed progress made in delivering the Group's sustainability strategy – Heathrow 2.0: Connecting People and Planet to ensure the business remains on track to delivering its environmental and social commitments. In doing so the HAHL Board considered whether the targets remain sufficiently ambitious and they address the material issues and stakeholder concerns and what steps, if any, are needed to maintain progress.	Heathrow's new package of noise insulation schemes was launched in April 2023, featuring 100% funding for eligible homes.
		In January the HAHL Board reviewed noise related risks, including impacts on local communities, and approved the proposed direction for the revised noise insulation schemes offered by Heathrow to local residents to improve mitigation of noise impacts. The HAHL Board considered the extent of noise impacts on local residents around Heathrow, research on potential health effects of aircraft noise and the role that non-acoustic factors play in shaping individuals' response to noise. It also considered evidence from previous noise insulation schemes that drive community take-up and the direction of Government policy.	
		In May the HAHL Board reviewed and approved the Modern Slavery Statement for 2022 outlining the steps the business has taken to ensure there is no slavery or human trafficking in its supply chain or its own business.	Heathrow's Modern Slavery Statement for 2022 was published to stakeholders on Heathrow's website.
		Across 2023, the HAHL Board considered and endorsed a number of Heathrow's carbon strategy activities. These included Heathrow's Carbon and Sustainability programme for H7, with £250m of investment to support reduction of carbon and respond to airline needs, including the deployment of pre-conditioned air ('PCA') and electric vehicle ('EV') charging. The HAHL Board considered the first planned annual carbon forecast to check progress towards our 2030 goals. The forecast is contingent on achieving a 10% sustainable aviation fuel ('SAF') target, nationwide EV adoption, and successful carbon programme execution. The HAHL Board endorsed Heathrow's continued campaign through the Rise Coalition for faster progress from Government on SAF policy.	Heathrow's first annual carbon forecast for 2030 was produced in July as an internal strategic instrument to inform our net zero trajectory. The Rise Coalition successfully advocated the amendment to the Energy Security Bill, backed by 69 MPs, committing to introduce a revenue certainty mechanism to support SAF production in the UK.

Board Decision	Stakeholders	Considerations	Outcome
Acquisition of the Compass Centre	Passengers Community and the Environment Team Heathrow Colleagues Investors Suppliers and Commercial Partners	The Compass Centre is the home of the Airport Operating Centre ('APOC') which is a critical data centre for the business. It also provides 210,000 square feet of space to host Heathrow's Corporate HQ, home to 1,500 non-operational colleagues, as well as offices and amenities for programme partners, critical suppliers and colleague Learning and Development. Prior to the acquisition, Heathrow leased the Compass Centre. The landlord had acquired the Compass Centre with the intention to demolish and develop the site into a purpose-built warehouse facility which would have required Heathrow to exit the Compass Centre and migrate its infrastructure and functions elsewhere. In this case, the lead option was to relocate these facilities within Heathrow's existing estate to realise rental savings, but at the expense of rental income from spaces that would have needed to be vacated in order to accommodate Heathrow's occupation. In considering the potential acquisition of the Compass Centre, the HAHL Board prioritised securing operationally critical infrastructure and sufficient space for colleagues to work, without impacting operationally critical space in the terminals and their associated revenue. The HAHL Board also prioritised the most capital efficient solution. After careful consideration, the HAHL Board approved the acquisition of the Compass Centre in July 2023 which was completed in January 2024.	The acquisition of the Compass Centre is in the long-term interest of Heathrow as it: • Secures long-term certainty for critical operational infrastructure and colleague spaces at the Compass Centre, and in turn, it is not necessary to acquire in-terminal areas from third party occupiers in order to relocate Compass Centre functions. • Protects the interests of Heathrow's colleagues, by securing their place of work, and provides the certainty required to invest in those spaces to enhance the colleague proposition. • Protects the critical space of our operational partners (airline offices) and programme suppliers, the supply chain that delivers the infrastructure programme, and negates disruption to critical suppliers that work at Compass Centre for the benefit of the airport operation. • Minimises development work in the terminals, thereby avoiding embedded carbon, and inefficient people movements, including pollution and disruption resulting from the demolition and development of a new warehouse scheme e.g., congestion on the local road networks.

STAKEHOLDER ENGAGEMENT

The table below, which forms part of the Section 172 Statement, sets out who the HAHL Board consider to be its key stakeholders and provides details of some of the engagement that takes place at an operational or HAHL Group level. Not all information is reported directly to the HAHL Board and not all engagement takes place directly with the HAHL Board.

However, the output of this engagement informs business-level decisions, with an overview of developments and relevant feedback being reported to the HAHL Board and/or its committees.

WHY WE ENGAGE	**HOW WE ENGAGE**	LINK TO **STRATEGIC PRIORITIES**
PASSENGERS		
Understanding our passengers' changing needs and behaviours helps us to achieve our vision to give passengers the best airport service in the world.	Passenger interactions at the airport and satisfaction surveys drive Key Performance Indicators ('KPIs'), which measure how successful we are and provide feedback on the impact of our decisions. Heathrow also undertakes a wide range of consumer research to inform how we can improve our services, obtaining qualitative and quantitative feedback from over 350,000 passengers per year. Heathrow receives feedback from over 2 million current consumers via real time channels such as social media, feedback channels and real-time feedback devices. Heathrow uses its consumer engagement to inform investment and prioritise improvement initiatives. In addition, Heathrow has an online community (Horizon) consisting of current and potential Heathrow users which is used when developing new passenger solutions. We have several independent passenger groups whose role is to scrutinise and challenge the service we provide for our passengers. These include the Heathrow Passenger Forum ('HPF'), which is part of the Council for the Independent Scrutiny of Heathrow Airport ('CISHA'), and the Heathrow Access Advisory Group ('HAAG') who advise Heathrow on how to create an accessible and inclusive experience.	MOJO BEAT THE PLAN TRANSFORM CUSTOMER SERVICE
COMMUNITIES AND THE ENVIRONMENT		
Working with local communities enables us to deliver on the objectives of Heathrow 2.0, our sustainability leadership plan.	The Council for the Independent Scrutiny of Heathrow Airport ('CISHA') ensures independent oversight of the way in which Heathrow engages with local stakeholders and surrounding communities. It is integrated with Heathrow's wider community forum structure and provides a transparent mediation process on key issues arising from the airport's operation and future development as signified in Section 35 of the Civil Aviation Act. It is independently chaired, and its members are the independent chairs of other Heathrow forums, local authority leaders, aviation industry and government bodies, Heathrow Strategic Planning Group and Heathrow. The Local Community Forum ('LCF') facilitates constructive engagement between Heathrow and local communities with the goal of building relationships and trust to make Heathrow a better neighbour. Through the LCF, Heathrow is able to better understand the concerns of communities living near the airport working with them to help minimise local airport related impacts. It is independently chaired, and its members are nominated representatives of local community groups/ organisations and residents' associations.	MOJO SUSTAINABLE GROWTH

WHY WE ENGAGE	**HOW WE ENGAGE**	LINK TO **STRATEGIC PRIORITIES**
	The Heathrow Sustainable Economic Growth Taskforce ('HSEG') was set up in 2023 and is a stakeholder forum that aims to maximise the opportunities to enhance local economies through jobs and skills, supply chain, airport development & local decarbonisation. It is independently chaired, and its members are representatives of local councils, local enterprise partnerships, education and skills providers, business groups, chambers of commerce and Heathrow. The Noise and Airspace Community Forum ('NACF') engages on issues related to noise, airspace and runway operations at Heathrow, including updates on day-to-day operations and future changes. It is independently chaired and its members are representatives of local authorities, community groups, aviation industry and government bodies and Heathrow. The Heathrow Area Transport Forum ('HATF') is a partnership forum between organisations in the private and public sectors with a shared goal of improving accessibility and increasing public transport use to and from the airport and the surrounding area. It also provides input into ongoing Heathrow surface access initiatives. It is independently chaired, and its members are transport industry bodies, trade unions and Heathrow. The Heathrow Air Quality Working Group provides a forum for consultation on Heathrow's air quality strategies and progress towards meeting its targets and to share best practice. It is independently chaired, and its members are representatives of local authorities and Heathrow. The Heathrow Strategic Planning Group ('HSPG') is a partnership of many of the local authorities and Local Enterprise Partnerships ('LEPs') responsible for planning the land use, transport, environment, economic development and sustainable development of the sub-region surrounding Heathrow Airport. It is independent but works constructively with Heathrow. We also use social media, our website and email communications to communicate directly with our communities. More information on local community can be found at **www.heathrow.com/company/local-community** More information on sustainability can be found at **www.heathrow.com/sustainability** More details on our commitment to sustainable growth can be found in the section from page 34.	
TEAM HEATHROW COLLEAGUES		
Driving positive engagement with colleagues is pivotal to ensure that we continue to deliver excellent service to customers and stakeholders. Engaged individuals create high-performance, flexible and diverse teams and will support the achievement of Heathrow's strategic objectives	Three Pulse surveys are run annually across the whole Heathrow population, capturing data for the KPI of 'Heathrow is a Great Place to Work' and other key engagement metrics. This data is then analysed and used company-wide and locally to inform engagement strategies and activities. In all business areas, Business Partners work with Leadership Teams to establish and support local engagement teams to create conversation platforms, ensure information sharing, and help create a team spirit and sense of belonging. There are team events and activities to keep colleagues informed and engaged. There are regular company, functional and team updates through Buzz, Hub+ and focus groups organised around relevant topics from specific engagement feedback. There is a robust Engagement Lead working group with representatives from all functions to create a two-way feedback loop. Some of the actions we have taken so far include: an increased focus on delivering 1:1 manager to colleague time and restarting pre-shift briefings in Security; running an Ops Webinar monthly via Teams to keep colleagues updated on what is happening in the airport; using colleague feedback to launch and/or improve initiatives such as Career Champions.	MOJO BEAT THE PLAN TRANSFORM CUSTOMER SERVICE

WHY WE ENGAGE	**HOW WE ENGAGE**	LINK TO **STRATEGIC PRIORITIES**
	Every thread of our Equality, Diversity and Inclusion ('ED&I') strategy, from the 'Right Where I Belong' campaign to our Inclusion and Wellbeing Survey, is woven with the voices of our colleagues, helping create a sense of belonging for all. We have five Diversity Networks (Altitude, en-haNCE, Proud, HAND and sPaCe) that use their platforms to promote an inclusive culture through online and in-person events, webinars and campaigns. We continue to build new methods of supporting colleague engagement from dedicated ED&I learning, our Heathrow Mentoring Platform and the recent launches of our ED&I Strategy Group and ED&I Comms Working Group. Colleague safety is a continued top priority and is monitored through business and colleague reporting. The 'Close Call' target puts the ownership on colleagues and allows the business to continuously improve the safety of working environments and prevent workplace accidents. The Engagement team work closely with the Internal Communications team to share the right messages at the right time, keep colleagues informed and to continue to highlight the importance of the colleague voice.	
AIRLINES		
Airlines and their customers are at the heart of the Heathrow proposition. It is important that we understand their needs and deliver the right operating and commercial environment for our airline partners.	The Heathrow Leadership Group works collaboratively to improve the end-to-end passenger experience at Heathrow. The group comprises the Chief Executives of Heathrow Airport, British Airways, Virgin Atlantic, NATS and the Civil Aviation Authority ('CAA'). It meets quarterly under the Chairmanship of Heathrow's Chief Executive Officer. We engage formally with airlines throughout the year on key areas including operational and passenger experience, pricing, and regulatory governance connected to capital spend and other regulated charges. This engagement is overseen through a Joint Steering Board of senior airline and Heathrow stakeholders. This is augmented, as is necessary, by further bespoke engagement on a range of issues as an airline or as an airport community. Quarterly joint executive meetings and business review meetings take place with key airline customers. Our Chief Executive Officer regularly visits major current and potential international airlines.	MOJO BEAT THE PLAN TRANSFORM CUSTOMER SERVICE SUSTAINABLE GROWTH
INVESTORS		
Understanding the needs of investors helps us to access a cost-effective, stable, diversified financing base for the business and to make Heathrow an attractive global infrastructure investment.	Shareholders controlling ten per cent or more of the issued ordinary shares of FGP Topco Limited are entitled to appoint one Non-Executive Shareholder Director to the HAHL Board for every ten per cent held. We provide quarterly financial updates, semi-annual investor reports and debt investor presentations. We provide an Annual Report which includes optional enhanced disclosures. We perform investor roadshows and make prospectus documents available and we have ongoing dialogue with current and potential investors. We liaise with credit rating agencies to ensure we understand the impact of our strategic decisions on their assessment. We provide ESG reporting which integrates Heathrow 2.0 KPIs into our future financing plans. More information on local community can be found on our Heathrow corporate website **www.heathrow.com/company/investor-centre**	MOJO BEAT THE PLAN TRANSFORM CUSTOMER SERVICE SUSTAINABLE GROWTH

WHY WE ENGAGE	**HOW WE ENGAGE**	LINK TO **STRATEGIC PRIORITIES**
SUPPLIERS AND COMMERCIAL PARTNERS		
The service provided to passengers is the combination of a highly complex and interconnected system of services from different organisations. Heathrow works collaboratively and in partnership with all the organisations in this ecosystem to deliver our vision.	Heathrow is focused on building strong relationships with our strategic suppliers to fulfil our vision of giving passengers the best airport service in the world. We prioritise our community and our local recovery plans and, in order to meet our ambitions and commitments, we have several areas of engagement. Our Heathrow Business Summits aim to connect local Small to Medium Size Enterprises ('SMEs') with Heathrow's key suppliers and identify tangible opportunities to do business in the future. We procure our goods and manage our strategic partners and wider supply chain using a balanced score card approach in order to clearly communicate priorities and standards. Our balanced scorecard facilitates a method of working with strategic suppliers which hones them in on the goals of Heathrow 2.0, covering carbon, social value, local economy, innovation and cultural behaviours that we aspire to. This span of objectives attracts commitments from our partner organisations which are then contracted for measurement. In 2022, we launched CompeteFor, a platform that makes contract opportunities visible to other businesses (particularly SMEs). These include opportunities that are direct, within our supply chain, and across London with other clients. We attract innovation and micro SME activity via our new Lift Off forum which was launched in 2023. Lift Off is a new concept which provides the chance for selected innovative SMEs to present their products and services to a panel made up of Heathrow and its largest supply chain partner organisations. Heathrow's 2022 Modern Slavery Statement was reviewed and approved by the Board. A copy of the statement is available on the corporate website **www.heathrow.com**	BEAT THE PLAN TRANSFORM CUSTOMER SERVICE SUSTAINABLE GROWTH
REGULATOR		
Heathrow is subject to economic regulation by the CAA, which is the independent aviation regulator in the UK and is responsible for economic regulation, airspace policy, safety and consumer protection.	We meet regularly with the CAA at all levels from Chief Executive Officer to working level to discuss all issues relating to the economic regulation impacting Heathrow. We respond to various CAA publications related to the economic regulation of the airport. This includes regulatory price control reviews and expansion related matters. As part of our licence, we are required to publish various regulatory documents. Regulatory reporting takes place through the annual Regulatory Accounts.	BEAT THE PLAN SUSTAINABLE GROWTH

02

GOVERNANCE REPORT

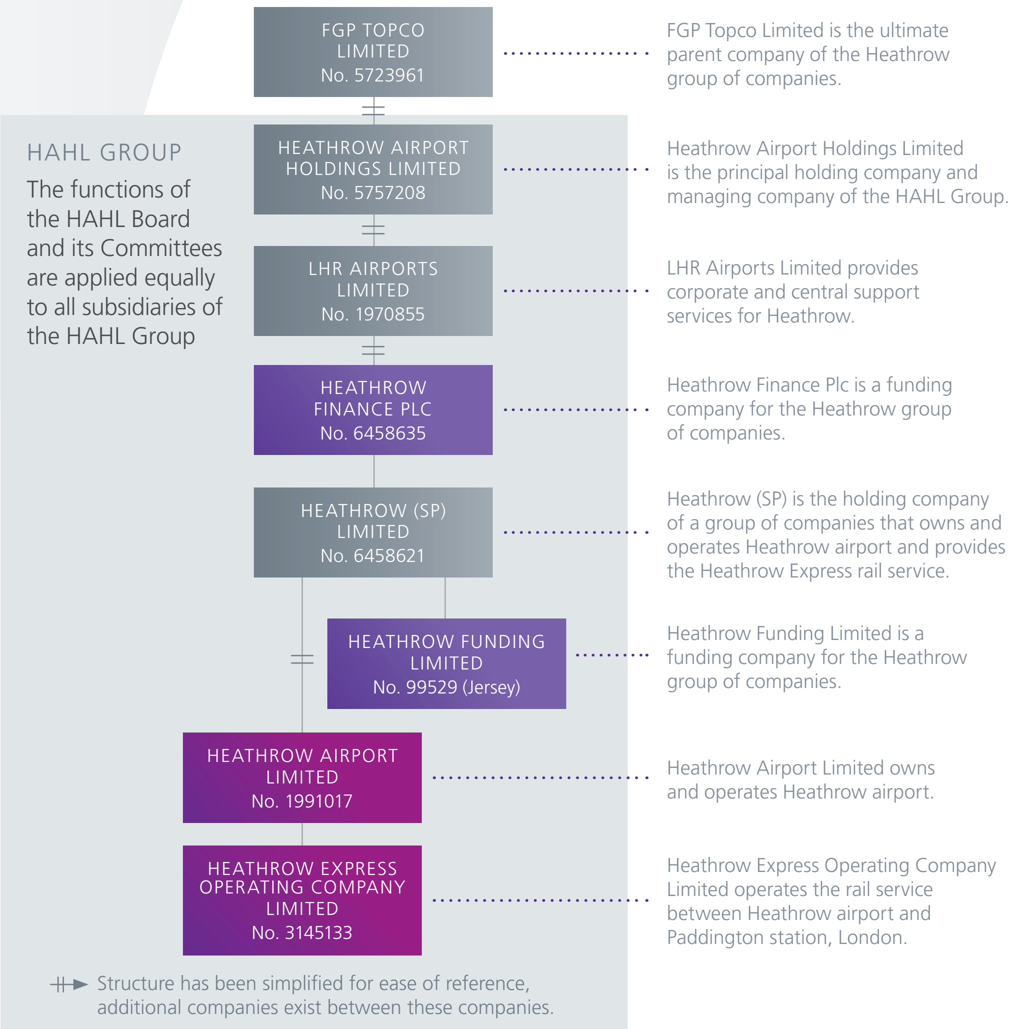
GROUP STRUCTURE

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

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

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

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



OUR OWNERS

The HAHL Group is owned by a consortium of investors (the ‘Shareholders’) who hold shares in FGP Topco Limited. Details of the Shareholders’ equity interests, as at 31 December 2023, are shown in the table:

Shareholder	% held
Ferrovial[1] Hubco Netherlands B.V. (an indirect subsidiary of Ferrovial, S.A., Spain)	**25.00%**
Qatar Holding LLC Qatar Holding Aviation (a wholly owned subsidiary of Qatar Holding LLC)	**20.00%**
Caisse de dépôt et placement du Québec (‘CDPQ’)	**12.62%**
GIC Baker Street Investment Pte Ltd (an investment vehicle of GIC)	**11.20%**
Australian Retirement Trust (‘ART’)[2] QS Airports UK, LP (investment vehicle managed by ART Asset Operations Limited)	**11.18%**
China Investment Corporation (‘CIC’) Stable Investment Corporation (an investment vehicle of the China Investment Corporation)	**10.00%**
Universities Superannuation Scheme (‘USS’) USS Buzzard Limited (wholly owned by the Universities Superannuation Scheme)	**10.00%**

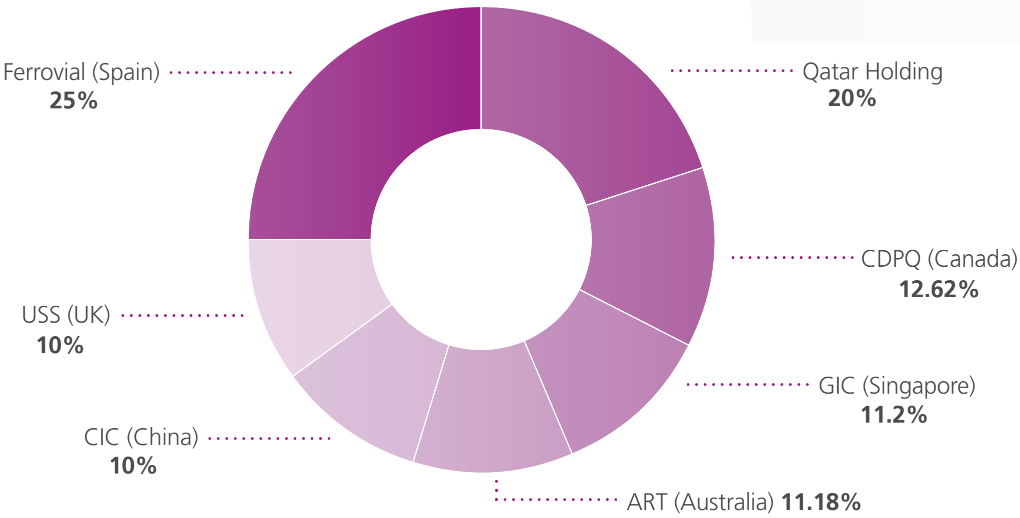
Shareholders’ Agreement

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

Governance arrangements resulting from the Heathrow Group’s secured financing platform

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

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



[1] Ferrovial notified the directors of FGP Topco Limited on 28 November 2023 that it had reached an agreement for the sale of its stake in FGP Topco Limited, subject to certain rights of the other Shareholders and satisfaction of applicable regulatory conditions.
[2] With effect from 27 May 2023 the current General Partner of QS Airports UK, LP changed from Eagle Airports General Partner 2, Limited (controlled by Astatine Investment Partners as managers for ART) to ART Asset Operations Limited. ART Asset Operations Limited is a wholly-owned subsidiary of ART.

HAHL BOARD OF DIRECTORS

CHAIRMAN AND EXECUTIVE DIRECTORS

N

LORD PAUL DEIGHTON
CHAIRMAN

Appointed 22 June 2016

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

F S

THOMAS WOLDBYE
CHIEF EXECUTIVE OFFICER

Appointed 18 October 2023

Prior to joining Heathrow in October 2023, Thomas served as the CEO of Copenhagen Airport where he championed passenger service, sustainability and growth. During his tenure at Copenhagen Airport, Thomas put customers and colleagues at the heart of the airport's transformation, turning it into the powerhouse transport hub of northern Europe with an award-winning passenger service ranking. Prior to his role at Copenhagen Airport, he spent 27 years at A.P. Møller-Mærsk, as a leader in the global shipping business as well as CEO of Norfolkline. During his career Thomas has worked in several different countries including 12 years in Asia and delivered significant success in complex operating environments.

F

JAVIER ECHAVE
CHIEF FINANCIAL OFFICER

Appointed 24 November 2016

Javier joined Heathrow in January 2008 and has been Chief Financial Officer since 2016. He is responsible for leading the organisation financially by enabling a sustainable growth strategy and transforming Heathrow's approach to risk, cost and investment. He leads the investment of our multi-billion capital plan driving long-term value creation to customers and shareholders.
He was closely involved in establishing the current capital structure and positioning Heathrow as a strong credit in the financial markets, including more than £16 billion of fundraising since he became CFO. Javier is Chair of Heathrow's Investment Committee.
He is a member of The King's Accounting for Sustainability ('A4S') project and co-chairs its European CFO Leadership Network. He also chairs the Wellbeing Leadership Team of Business In the Community ('BITC'), a British organisation focusing on responsible business. Prior to joining Heathrow, Javier worked as senior manager with Ferrovial, a Spanish-based global operator of sustainable infrastructure.

COMMITTEE KEY

Committee chair (A) Audit Committee (N) Nominations Committee (F) Finance Committee (S) Sustainability and Operational Risk Committee (R) Remuneration Committee

INDEPENDENT NON-EXECUTIVE DIRECTORS

A F

RT. HON RUTH KELLY
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed 8 April 2019

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

S

JOAN MACNAUGHTON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed 14 June 2021

Joan has extensive board experience in industry, government, academia and the third sector. After a career in government culminating as Director General of Energy for the UK, she spent five years in a power sector company, where she led the company's global climate change advocacy. She has wide international experience, including as Chair of the International Energy Agency, and Chair of the World Energy Council Trilemma, and has a high-level international network. She is currently a non-executive member of the Thames Freeport Governing Board, where she chairs the Innovation and Net Zero committee; a Trustee of the Green Purposes Company; and Chair of the China Dialogue Trust. She sits on several academic advisory boards at energy and climate institutes. As well as energy and climate issues, on which she publishes and lectures, she has public procurement, health and safety, regulatory and EDI experience at Board level.

S R

MARK BROOKER
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed 1 April 2022

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

NON-EXECUTIVE SHAREHOLDER DIRECTORS

A N F S

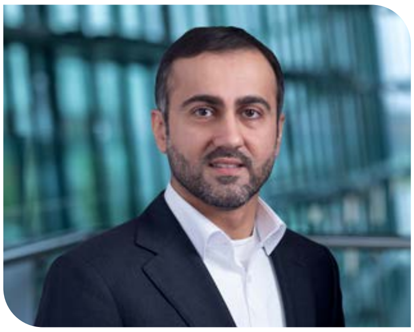
HIS EXCELLENCY AKBAR AL BAKER
NON-EXECUTIVE SHAREHOLDER DIRECTOR (QATAR HOLDING LLC)

Appointed 14 January 2013

Currently an advisor to H.E. the Prime Minister and Minister of Foreign Affairs of Qatar, H.E. Akbar Al-Baker concluded his tenure as the CEO of the Qatar Airways Group on 4 November 2023. H.E Al-Baker is a highly accomplished business leader based in Doha, having served as CEO of several key divisions within Qatar's national airline. His influence extends beyond Qatar Airways, as evidenced by his previous tenure as Chairman of Qatar Tourism, his role as Chairman of the Governing Board of the oneworld Alliance and his membership on the Board of Governors of the International Air Transport Association ('IATA') since 2012, where he assumed the position of Chairman from 2018 to 2019. Additionally, he has been an integral member of the Executive Committee of the Arab Air Carriers Organisation ('AACO') since 2011, serving as Chairman from 2013 to 2016. H.E. Al-Baker holds a private pilot licence and is a graduate in Economics and Commerce.

Alternate: Ali Bouzarif (appointed 31 January 2018).

F R



HIS EXCELLENCY AHMED AL-HAMMADI
NON-EXECUTIVE SHAREHOLDER DIRECTOR (QATAR HOLDING LLC)

Appointed 21 February 2018

H.E Ahmed Ali Al-Hammadi, is the Director General of the General Retirement and Social Insurance Authority. H.E. Al-Hammadi has held various high-ranking positions, he was previously the Chief Investment Officer for Europe, Russia and Turkey at the Qatar Investment Authority, managing the European portfolio across various sectors. H.E. Al-Hammadi has a diverse background and extensive experience in business and finance. He worked at EFG-Hermes managing regional equities before joining the QIA, and garnered valuable experience at consulting firm Booz & Co. (now Strategy&) advising financial services clients on strategy, private equity investment opportunities, and organisation structures.
H.E. Al-Hammadi also sits on the boards of SoFi, Borsa Istanbul and Dream International. On a local level, he plays a role as the Chairman of UDC, and Vice-Chairman of QEWC, board member of Masraf Al Rayan, and Industries Qatar. He was named a Young Global Leader by the World Economic Forum in 2019.
H.E. Al-Hammadi is a graduate of the Wharton School at the University of Pennsylvania and has obtained his MBA from the Harvard Business School.

Alternate: Deven Karnik (appointed 25 September 2014).

N F R

STUART BALDWIN
NON-EXECUTIVE SHAREHOLDER DIRECTOR (GIC)

Appointed 5 April 2006

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

Alternates: Jessie Jin (appointed 26 January 2022), Andrew Dallal (appointed 25 April 2023 to cover Jessie Jin's maternity leave).

COMMITTEE KEY

Committee chair (A) Audit Committee (N) Nominations Committee (F) Finance Committee (S) Sustainability and Operational Risk Committee (R) Remuneration Committee

A R N F

LUKE BUGEJA
NON-EXECUTIVE SHAREHOLDER DIRECTOR (FERROVIAL)

Appointed 23 June 2021

Luke is the Chief Executive Officer of Ferrovial Airports. He has held senior executive positions at Hermes GPE, OMERS, Ontario Airport Investments, and Macquarie Bank Limited/MAp Airports and has over 30 years' experience in the aviation industry, including senior positions at Changi Airports International, Virgin Blue, and Qantas. Luke has held Board positions at London City, Brussels, and Bristol Airports.

Alternates: Ignacio Madridejos Fernández (appointed 23 June 2021), David Kenny (appointed 29 September 2022 and resigned 31 March 2023), Andrew Carlisle (appointed 1 April 2023), Laura López Sotomayor (appointed 1 April 2023), Juan Carlos Bullón Alemán (appointed 11 April 2023).

F

RAYMOND CHAN
NON-EXECUTIVE SHAREHOLDER DIRECTOR (ART)

Appointed 9 May 2023

Raymond Chan is a senior member of the Global Real Assets team at Australian Retirement Trust ('ART'). Raymond has over 25 years of investment management, merchant banking and advisory experience. He has originated, executed, and financed principal investments across various asset classes, including private equity, real estate and infrastructure. Before joining ART, Raymond worked in New York for 10 years in infrastructure investing with Macquarie Bank and corporate development with McGraw Hill. He began his career in Australia in corporate finance with PricewaterhouseCoopers and Deutsche Bank. Raymond earned a Bachelor of Commerce from the University of Queensland and is a fellow of the Financial Services Institute of Australasia. He is also a member of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.

Alternates: Richard Hedley and William Loc (both appointed 9 May 2023).

A F S

OLIVIER FORTIN
NON-EXECUTIVE SHAREHOLDER DIRECTOR (CDPQ)

Appointed 27 October 2015

Olivier is a Managing Director in the CDPQ team based in London and is an experienced asset manager and infrastructure investor in the UK and Continental Europe. During his nine years at CDPQ, Olivier was seconded for eight months to Eurostar as Managing Director in charge of the COVID-19 response in 2020-21. Previously he was working with AMP Capital, and prior to that, with MAp Airports and Macquarie Capital Funds. He has been involved with Brussels, Copenhagen, Bristol, Rome and Newcastle Airports. He also currently sits on the boards of Eurostar, Streem (wagon and tank container leasing) and Colisée (nursing homes). Olivier was appointed as the HAHL Board's Climate Change Director on 27 January 2021.

NON-EXECUTIVE SHAREHOLDER DIRECTORS

S

SHAWN MICHAEL KINDER
NON-EXECUTIVE SHAREHOLDER DIRECTOR (FERROVIAL)

Appointed 21 September 2023

Shawn is global Corporate Development and Strategy Director at Ferrovial Airports, responsible for the Airport division growth. Shawn joined Ferrovial Airports in 2023. Before his appointment, he helped to build the aviation/airport financial advisory practice at Solomon Partners. He previously spent 19 years at aviation advisory firm Ricondo, working on several of the world's largest infrastructure development and business planning efforts at airports such as Chicago O'Hare, Abu Dhabi, Manchester, Nairobi, and Keflavik, while advising investors and government agencies on transactions in the United States, United Kingdom, and Europe. Shawn earned undergraduate and graduate degrees from Purdue University and Northwestern University.

Alternates: Ignacio Madridejos Fernández (appointed 21 September 2023), Andrew Carlisle (appointed 21 September 2023), Laura López Sotomayor (appointed 21 September 2023), Juan Carlos Bullón Alemán (appointed 21 September 2023).

A F R

ERNESTO LÓPEZ MOZO
NON-EXECUTIVE SHAREHOLDER DIRECTOR (FERROVIAL)

Appointed 1 October 2009

Ernesto is Ferrovial's Chief Financial Officer. Ernesto joined Ferrovial from Telefonica, having previously held positions at JP Morgan and Santander. He was a member of the IFRS advisory board from 2013 to 2015 and was appointed Chairman of the Board of Directors of Aegon España, S.A. in 2023 (member of the Board from 2016 to 2023). Ernesto is vice chairman of the Audit Committee.

Alternates: Ignacio Madridejos Fernández (appointed 30 January 2020), David Kenny (appointed 29 September 2022 and resigned 31 March 2023), Andrew Carlisle (appointed 1 April 2023), Laura López Sotomayor (appointed 1 April 2023), Juan Carlos Bullón Alemán (appointed 11 April 2023).

F N

MIKE POWELL
NON-EXECUTIVE SHAREHOLDER DIRECTOR (USS)

Appointed 20 November 2014

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

Alternates: Mary Ann Hogan (appointed 20 July 2022).

COMMITTEE KEY

Committee chair (A) Audit Committee (N) Nominations Committee (F) Finance Committee (S) Sustainability and Operational Risk Committee (R) Remuneration Committee

(F)

DAVID XIE
NON-EXECUTIVE SHAREHOLDER DIRECTOR (CIC)

Appointed 26 September 2018

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

Alternates: Ben Niu (appointed 30 November 2022 and resigned 31 January 2024), Minzhen (Orlando) Wang (appointed 31 January 2024).

COMPANY SECRETARY

(S)

MINE HIFZI
GENERAL COUNSEL AND COMPANY SECRETARY

Appointed 1 July 2022

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

EXECUTIVE COMMITTEE

From left:
Javier Echave, Emma Gilthorpe, Thomas Woldbye, Mine Hifzi, Ross Baker, Paula Stannett, Nigel Milton, Helen Elsby, Chris Annett

CHRIS ANNETTS
CHIEF STRATEGY OFFICER

Chris was appointed Chief Strategy Officer in September 2021. Previously he was Heathrow's Strategy, Regulation and Customer Director. During his 20-year career at Heathrow, Chris has held a number of senior roles across Digital Strategy, Commercial Planning, Commercial Passenger Services, Airline Business Development, Retail Operations and Expansion. Prior to joining Heathrow Chris held a number of roles in the retail and hospitality industries.

ROSS BAKER
CHIEF COMMERCIAL OFFICER

Ross was appointed Chief Commercial Officer in January 2017. Previously he was Heathrow's Director of Operations and, before that, Director of Strategy. Prior to joining Heathrow in 2011, Ross held a mix of advisory and aviation industry roles. At Bain & Company he advised on a mix of strategic, commercial and operational engagements. Prior to Bain, Ross spent a decade with British Airways where he held a range of operational and commercial-management roles in the UK and overseas.

HELEN ELSBY
CHIEF SOLUTIONS OFFICER

Helen was appointed as Chief Solutions Officer in September 2021. Previously she was Heathrow's Director of Procurement and before that held multiple roles in Heathrow's Capital team including Programme Management Office Director, Capital Development Director and Expansion Integration Director. Prior to joining Heathrow in 2009, Helen spent ten years at British Airways where she held development management and consultancy roles.

THOMAS WOLDBYE
CHIEF EXECUTIVE OFFICER

JAVIER ECHAVE
CHIEF FINANCIAL OFFICER

MINE HIFZI
GENERAL COUNSEL
AND COMPANY SECRETARY

For biographical details see pages 104 and 109.

EMMA GILTHORPE
CHIEF OPERATING OFFICER

Emma was appointed Chief Operating Officer in March 2020. Since joining Heathrow's Executive team in 2009 she has led a diverse range of functions. Initially as Regulatory Director, then leading the Strategy and Sustainability functions and latterly Capital Programme delivery teams. More recently Emma established and led Heathrow's Expansion Programme which created and campaigned for a sustainable and affordable 30-year Masterplan to transform the airport. Emma previously worked in the telecommunications sector, including at BT, across a range of regulatory, strategic and public policy roles. Her career has been anchored in regulated infrastructure, both listed and private, as incumbent and competitor.

Emma originally qualified as a barrister and in 2021 was appointed by Government as CEO of the Jet Zero Council, a part time pro bono role.

NIGEL MILTON
CHIEF OF STAFF AND CARBON

Nigel was appointed Chief of Staff and Carbon in September 2021. Previously he was Director of Communications, leading Heathrow's Press Office, Public Relations, Internal Comms, Political Affairs, Business Engagement and Policy teams. As Heathrow's Director for External Affairs between 2013 and 2016, Nigel led the communications campaign to win support for a third runway at the airport. Prior to joining Heathrow in 2010, Nigel worked in Virgin Atlantic's External Affairs department. Before that, he was Assistant Director for International Aviation in the Department for Transport and was also Private Secretary to the Deputy Prime Minister and Secretary for Transport, John Prescott, between 1998 and 2000. He has a law degree from Oxford University and a Master's Degree in Transport Planning and Management from the University of Westminster.

PAULA STANNETT
CHIEF PEOPLE OFFICER

Paula is an engaging strategic business leader whose ambition is to make Heathrow a great place to work by creating careers, not just jobs, for colleagues and our community. She has worked at Heathrow Airport since 1999 and was appointed as Chief People Officer in 2013. Paula is a highly regarded senior HR executive with a strong track record of developing organisational capability, driving transformational change and growing an inclusive culture. She is passionate about creating opportunities for colleagues by developing essential skills and embracing diversity in its broadest sense at all levels. Previous roles at the UK's busiest airport have included HR Director for the Airports Division, HR Director for Corporate Services, and leading Heathrow's Winter Resilience programme.

CORPORATE GOVERNANCE

CHAIRMAN'S INTRODUCTION

INTRODUCTION

During 2023 we have seen another strong year of recovery in passenger numbers and we have built back from the pandemic as a more resilient airport. I am pleased to introduce this report, which describes the activities of the HAHL Board during the year, along with Heathrow's governance arrangements.

The HAHL Board has remained focused on taking the appropriate action to ensure the business has been able to meet another year of recovery while setting the right plans for the rest of the regulatory period. During this time, the safety and wellbeing of passengers and colleagues has remained the number one priority and the HAHL Board has focused on ensuring that the airport continues to operate safely.

The HAHL Board has also sought to support the Company's sustainability strategy as well as the final stages of regulatory process for H7, which culminated in the final determination from the Competition and Markets Authority ('CMA') in October. Our robust governance framework has helped facilitate this work.

"The HAHL Board has remained focused on taking the appropriate action to ensure the business has been able to meet another year of recovery while setting the right plans for the rest of the regulatory period."

LORD PAUL DEIGHTON
Chairman

There were a number of changes to the HAHL Board during 2023. In May, we welcomed the appointment of Raymond Chan as a new Non-Executive Shareholder Director representing Australian Retirement Trust and bid farewell to Chris Beale who had represented Alinda. In September, we welcomed the appointment of Shawn Kinder as a new Non-Executive Shareholder Director representing Ferrovial, who replaced Maria Casero. We are grateful to Chris and Maria for their significant contributions to the HAHL Board.

The Nominations Committee keeps the balance of skills, knowledge and experience on the HAHL Board under regular review and is mindful of best practice requirements. During the year, the Nominations Committee conducted a thorough search for a new Chief Executive Officer, following which Thomas Woldbye was appointed as Heathrow's new Chief Executive Officer on 18 October and as an Executive Director of the HAHL Board. Thomas replaced John Holland-Kaye who stepped down as Chief Executive Officer of Heathrow after nine years in the role.

The HAHL Board undertakes a formal evaluation of its own performance every year. An internal evaluation was undertaken during November 2023 and I am pleased that the HAHL Board was found to operate effectively. Details of the process followed, the outcomes and the proposed actions can be found on page 122.

The HAHL Board takes account of the impact of its decisions on all of our stakeholders, whether they are passengers, colleagues, suppliers and commercial partners, airlines, investors, local communities or regulators, while taking steps to secure the HAHL Group's longer-term success. Details of how we have engaged with all our stakeholders, to understand their views, can be found on pages 96 to 99. A statement on how the Directors have had regard to the matters set out in section 172 of the Companies Act 2006 can be found on page 90.

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

As a Board, we're committed to robust standards of corporate governance and, for the year ended 31 December 2023, the HAHL Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ('FRC') in December 2018. We believe that high standards of corporate governance are central to the effective management of the HAHL Group and to maintaining the confidence of our stakeholders and investors.

The Wates Principles provide a framework for the HAHL Board to monitor corporate governance of the HAHL Group and consider opportunities where governance standards can be raised to a higher level across the business. We believe this, in turn, will result in better engagement with our stakeholder base and ultimately build trust with our passengers, colleagues and investors. Governance processes are cascaded down from the HAHL Board to other companies in the HAHL Group, including the Directors of the Company, so that the governance framework can provide the right environment for the HAHL Board, and other companies in the HAHL Group, to make decisions for the long-term success of Heathrow.

The table on the following page summarises the six Wates Principles and indicates where more information can be found in the strategic and the governance reports. Throughout 2024, the HAHL Board will continue to review and challenge how the HAHL Group can continue to improve its corporate governance.

HAHL BOARD CORPORATE GOVERNANCE SUMMARY

Principle	Summary	Page
Purpose and leadership	The HAHL Board is responsible for the long-term strategy, direction and performance of the HAHL Group. Our vision is to give passengers the best airport service in the world and to ensure that our values, strategy and culture are aligned with that purpose. The HAHL Board recognises that maintaining a healthy culture throughout the organisation is critical in order to create and protect long-term value. The HAHL Group's strategic framework, shown on page 26, embeds our vision, purpose, priorities and values with our strategic propositions as key elements to ensure our stakeholders' interests are central to Heathrow's future developments. As well as developing strategy, the HAHL Board is responsible for the business model required to generate long-term sustainable value and for ensuring that strategy is clearly articulated and implemented throughout the business. The Executive Committee identify and recommend business opportunities, for consideration by the HAHL Board. Certain new business opportunities require the approval of the HAHL Board and, in some cases, also require the approval of the Shareholders in accordance with the terms of the Shareholders' Agreement. This includes overseeing the establishment of transparent policies in relation to raising concerns about misconduct and unethical practices, and also observing other statutory duties and responsibilities. Directors are required to disclose any conflicts of interest in accordance with the HAHL Board's Conflicts of Interest procedure.	26, 90, 102
Board composition	The HAHL Board consists of the Chairman, Chief Executive Officer, Chief Financial Officer, three Independent Non-Executive Directors and ten Shareholder Non-Executive Directors. The Independent Non-Executive Directors bring outside experience and provide constructive challenge and influence. The composition of the HAHL Board is partly determined by the Shareholders' Agreement which provides for shareholder representation on the HAHL Board, and it is considered to be in the best interests of the HAHL Group for its Shareholders to be represented at meetings by senior executives. As a private, investor-owned group with seven shareholders, the HAHL Group benefits from a diversity of viewpoints at the HAHL Board and the Independent Non-Executive Directors enhance this. The HAHL Board acknowledges that, overall, it has good geographical diversity, but it is also committed to improving its diversity in terms of gender, ethnicity, disability and age. The Nominations Committee is responsible for maintaining an appropriate balance of skills, experience, independence and diversity amongst the Executive and Independent Non-Executive Directors on the HAHL Board. Directors receive regular updates on new legislation, regulatory requirements and other changes, to ensure that they are fully equipped when making decisions about the business. The performance of the HAHL Board is reviewed annually and consideration is given to its overall composition and to the effectiveness of its different processes with a view to maximising strengths and highlighting areas for further development. More information about the HAHL Board's effectiveness, including recommendations taken and areas of focus for development, is shown on page 122.	118, 119, 122
Directors' responsibilities	The HAHL Group has a separate Chairman and Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision-making are effectively maintained. The HAHL Board receives regular reports on the business, financial performance, health, safety and wellbeing of colleagues, passenger forecasts, commercial and retail performance, regulatory and sustainability matters, colleague engagement, stakeholders and local communities, and management of key business risks, along with updates on the activities and decisions of its formal Committees. The HAHL Board is familiar with Heathrow's governance framework and annually reviews the terms of reference of its formal Committees. Directors have access to the Shareholders' Agreement, Heathrow's Group policies and related governance processes. New Directors receive a comprehensive induction to the HAHL Board and receive regular ongoing training and updates relating to their statutory and fiduciary duties.	116 - 118
Opportunity and risk	The HAHL Board seeks out opportunities while mitigating risk. Long-term strategic opportunities are highlighted in the three-year Business Plan presented to the HAHL Board. The HAHL Board has overall responsibility for the risk management framework and ensuring that an effective risk response system is in place. The HAHL Board regularly reviews Heathrow's principal and short-term risks, mitigations, and overall risk appetite. The Risk and Assurance Committee and the Executive Committee ensure that significant and emerging risks are identified and managed appropriately and in a timely manner, updating the risk register for any changes in underlying conditions. Operational, safety and climate-related risks are regularly reviewed by the Sustainability and Operational Risk Committee, and financial risks by the Audit Committee. Although both Board Committees and the HAHL Board have full visibility of the overall risk landscape on a quarterly basis.	64, 124, 136
Remuneration	The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the HAHL Board concerning the HAHL Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Committee reviews Heathrow's remuneration structure each year to ensure that the framework supports Heathrow's strategic ambitions and rewards Directors fairly for the contribution that they make to the business. The Committee takes advice from independent external consultants who provide updates on legislative requirements, market best practice and remuneration benchmarking. Pay is aligned with performance, taking into account fair pay and conditions across the HAHL Group's workforce.	128
Stakeholder relationships and engagement	Central to our strategic framework, shown on page 26, are our high-level aspirations for the future of Heathrow for all our stakeholder groups. Our strategic priorities and values are how we deliver our vision. They reflect a simple business logic: engaged people deliver excellent service, which in turn delivers financial returns and growth in a sustainable way. The table within the section 172(1) statement on pages 96 to 99 provides details of our main stakeholders and some of the engagement that takes place with them at an operational or HAHL Group level.	26, 96 - 99

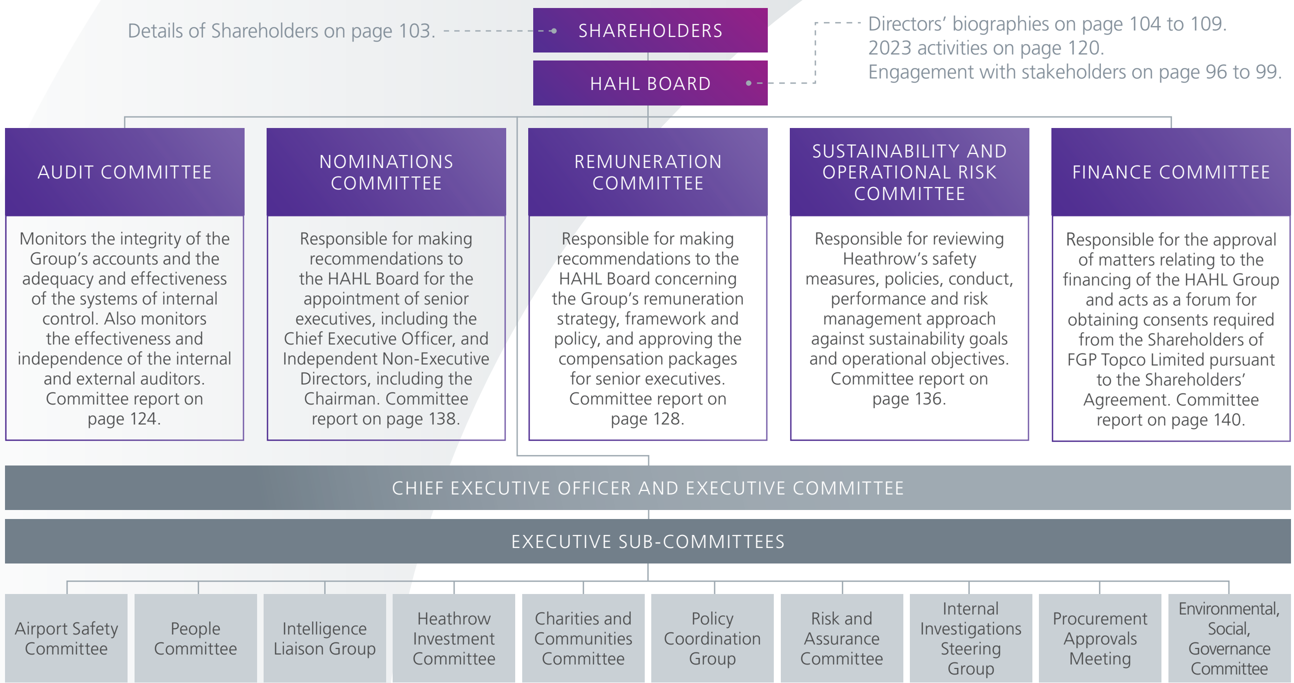

Heathrow

GOVERNANCE STRUCTURE

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

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

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



The HAHL Board receives regular reports on business and financial performance, employee issues and management of key business risks. The Chairs of the Audit Committee, Remuneration Committee, and the Sustainability and Operational Risk Committee each provide regular updates on matters discussed at those committees. The Finance Committee submits an annual update of its activities. The papers and minutes from each committee are made available to the HAHL Board. Where appropriate, recommendations are made by each of the HAHL Board Committees so that final decisions can be taken by the HAHL Board. Members of the HAHL Board have the opportunity to attend monthly Board Working Group sessions to receive more in-depth information about specific aspects of the business. The Board Working Group sessions are available to all HAHL Board members and their advisors. They provide a forum for discussion on particular topics, and an opportunity for Directors to discuss complex topics at length ahead of HAHL Board meetings.

The Executive Committee is the forum of the senior executive management team of the HAHL Group. The HAHL Board delegates authority for day-to-day management of the HAHL Group to the Chief Executive Officer and his Executive Committee, which meets weekly and is chaired on a rotation basis by the Chief Executive Officer and other members of the Executive Committee. In addition to the Chief Executive Officer, membership of the Executive Committee includes the Executive Directors responsible for each business function. Further information is shown on page 110.

The Executive Committee develops and recommends to the HAHL Board medium and long-term business development strategies. They ensure the delivery of agreed strategies by providing guidance, approvals, governance and monitoring. The Executive Committee also considers health and safety, financial, legal and regulatory matters, risk assurance and compliance, and it reviews and approves all matters to be presented to the HAHL Board for information or approval. There is a high level of interaction between the HAHL Board and the Executive Committee. Members of the Executive Committee provide regular presentations at board meetings and attend strategy days with the HAHL Board in order to review issues in more detail, and to plan and align views.

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

EXECUTIVE SUB-COMMITTEES

AIRPORT SAFETY COMMITTEE

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

PEOPLE COMMITTEE

Provides appropriate levels of governance with regards to People matters in support of the Mojo business priority and making Heathrow a great place to work, which is in service of Heathrow's vision to give passengers the best airport service in the world. It enables agile and transparent decision-making, while assuring levels of consistency across the organisation. It is chaired by the Chief People Officer. Other members are the Chief Financial Officer and representatives from the People, Commercial and Operations teams.

INTELLIGENCE LIAISON GROUP

Responsible for providing a secure forum to safely share secret, sensitive and often time-critical security intelligence. Members require the necessary level of security clearance.

HEATHROW INVESTMENT COMMITTEE

Acts under authority delegated by the Executive Committee as a single accountable forum on capital investment across Heathrow. It is chaired by the Chief Financial Officer. Other members consist of the Chief Operating Officer, Chief Commercial Officer, Chief Solutions Officer and Chief Strategy Officer.

CHARITIES AND COMMUNITIES COMMITTEE

Responsible for agreeing strategy and policy for charitable giving and oversight of investment in local communities at Heathrow. It is chaired by the Chief of Staff and Carbon. Other members consist of the Chief Financial Officer, Chief People Officer, Director of Communities and Sustainability and the Head of Equality, Diversity and Inclusion.

POLICY COORDINATION GROUP

A strategic, senior-policy forum that provides advice and recommendations on Heathrow's policy priorities. Representing the Executive Committee, leads from different business functions provide input to agree Heathrow's positions and prioritisation on key policy asks. It is chaired by the Chief of Staff and Carbon. Other members are the Director of Communications and senior representatives from different functions across the business.

RISK AND ASSURANCE COMMITTEE

Responsible for reviewing the effectiveness of the risk management strategy and framework, and for reviewing the principal risks. It is chaired by the General Counsel and Company Secretary. Other members consist of the Chief Financial Officer, Chief of Staff and Carbon, Chief Strategy Officer and Director of Operations.

INTERNAL INVESTIGATIONS STEERING GROUP

Responsible for setting and overseeing compliance with the governance framework for relevant internal investigations. It provides the Executive, HAHL Board and Audit Committees with assurance that Heathrow has appropriate procedures to ensure appropriate governance and conduct of internal investigations. It is chaired by the General Counsel and Company Secretary. Other members consist of the Head of Security Intelligence Risk and Product, Director of Business Assurance, Operations and Contentious Matters Lawyer, Senior Auditor, Employee Relations Manager, Engagement and Business Partnering Director and a designated Independent Non-Executive Director.

PROCUREMENT APPROVALS MEETING

Provides appropriate levels of governance with regards to all procurement activities. It is chaired by the Chief Solutions Officer, with responsibility for running the committee delegated to the Director of Procurement. Other members consist of the Head of Portfolio, Head of Infrastructure Procurement, Head of Technology and Corporate Services, Head of Operational Procurement and Head of Legal, Solutions and Commercial.

ENVIRONMENTAL, SOCIAL, GOVERNANCE ('ESG') COMMITTEE

Assesses the ESG-related risks and opportunities and oversees the progress for integrating ESG commitments. It is chaired by the Chief of Staff and Carbon. Other members consist of the Chief Financial Officer, General Counsel and Company Secretary, Communities and Sustainability Director, Carbon Strategy Director, Programme Director (for the Carbon and Sustainability Programme), Head of Strategy, Finance Director (Financial Control), Learning and Inclusion Director and Head of Legal, Compliance and DPO.

ROLES AND RESPONSIBILITIES

It is the HAHL Group's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. The key roles and responsibilities of the Directors of the HAHL Board are set out below:

CHAIRMAN

The Chairman is responsible for:

- Leading and managing the HAHL Board, its effectiveness and governance.
- Ensuring that HAHL Board meetings operate smoothly and provide a conducive environment for Board members to make effective decisions and discharge their fiduciary and statutory duties.
- Ensuring HAHL Board members are aware of, and understand, the views of key stakeholders.
- Helping set the tone from the top in terms of the purpose, goal, culture, vision and values for the whole organisation.
- Creating the conditions for the overall effectiveness of the HAHL Board.

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is responsible for:

- The leadership and day-to-day management of the HAHL Group through the Executive Committee.
- Developing the HAHL Group's strategy and objectives whilst having regard to its responsibilities to the Shareholders, and wider stakeholders.
- Managing the Executive Committee.
- Working with the Chairman and Company Secretary to ensure that HAHL Board meetings operate smoothly.
- Ensuring the effective implementation of HAHL Board decisions.
- Regularly reviewing the operational performance and strategic direction of the HAHL Group's business.
- Optimising as far as possible the use and adequacy of the HAHL Group's resources.
- Working with the Chairman to set the HAHL Group's purpose, goal, culture, vision and values.
- Ensuring the long-term sustainability of the business.
- Ensuring all HAHL Group policies and procedures are followed to the highest standards.

CHIEF FINANCIAL OFFICER

The Chief Financial Officer is responsible for the financial performance, capital allocation and financing of the HAHL Group and supporting the Chief Executive Officer in developing and implementing strategy.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-Executive Directors are responsible for providing constructive challenge and bringing independence to the HAHL Board and its decision-making process. Particularly:

- Bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management.
- Scrutinising and challenging the performance of the HAHL Group's business.
- Assessing risk and the integrity of the financial information and controls.

NON-EXECUTIVE SHAREHOLDER DIRECTORS

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

COMPANY SECRETARY

The role of Company Secretary is performed by the General Counsel who is a member of the Executive Committee. The Company Secretary is available to the Chairman and all Directors and is responsible for managing board meetings, information flows to the HAHL Board and advising the HAHL Board on legal, corporate governance and procedural matters. Directors may also take professional advice at the Company's expense.

COMPOSITION OF THE HAHL BOARD

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

The names and biographies of all Directors of the HAHL Board are published on pages 104 to 109. Nine of the Shareholder Non-Executive Directors have formally approved alternates, who are also listed. The alternates are statutory Directors of HAHL, who attend board and/or committee meetings when Shareholder Non-Executive Directors are unable to do so. Occasionally, and with the prior consent of the Chairman, some alternate Directors attend meetings alongside their appointors as observers. The Executive and Non-Executive Directors are equal members of the HAHL Board and have collective responsibility for the HAHL Group's strategy and performance. Each HAHL Board Director has a clear understanding of their accountability and responsibilities.

Recommendations for the appointment of Independent Non-Executive Directors to the HAHL Board are made by the Nominations Committee. Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience, age, gender, disability and social and ethnic background). Non-executive appointees are also required to demonstrate that they have sufficient time to devote to the role.

The Independent Non-Executive Directors bring outside experience in areas such as aviation, transport, health and safety, sustainability, climate change, energy, regulation, government, finance, retail and technology, and provide constructive challenge and influence from outside the HAHL Group. The Chairman holds periodic meetings with all the Non-Executive Directors to discuss the performance of management and the HAHL Board, without the Executive Directors present.

The HAHL Board considered the Chairman, Lord Paul Deighton, to be independent in judgment and character on his appointment on 22 June 2016.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the HAHL Group rather than service contracts, which include the expected time commitment of the appointment.

The Directors are required to comply with Heathrow's group policies, including policies on Professional Conduct, Health and Safety, Conflicts of Interest, Anti-Bribery, Gifts and Hospitality and Anti-Facilitation of Tax Evasion.

The HAHL Board believe that its size and composition are appropriate to meet the strategic needs and challenges of the business and to enable effective decision-making. The composition of the HAHL Board is partly determined by the Shareholders' Agreement, which states that each Shareholder controlling ten per cent or more of the issued ordinary shares of FGP Topco Limited, is entitled to appoint one Director to the HAHL Board. Currently Ferrovial appoints three directors, Qatar Holding LLC appoints two directors and each of the other Shareholders appoint one director. It is considered to be in the interests of the HAHL Group for each Shareholder to be represented on the HAHL Board. In addition, there are four Independent Non-Executive Directors, including the Chairman, whose purpose is to challenge and provide external expertise. The HAHL Board does not have a majority of Independent Non-Executive Directors and it is felt that the numbers associated with ensuring a majority of Independent Non-Executive Directors would make the operation of the HAHL Board unwieldy and unduly costly.

It is acknowledged that, although there is international diversity on the HAHL Board, there is a relative lack of gender diversity. Shareholders are encouraged to consider different aspects of diversity when nominating Non-Executive Shareholder Directors. The HAHL Board is committed to making the HAHL Group an ever-more inclusive environment, thereby fostering a more diverse workforce which should increase diversity at the most senior levels.

Heathrow participates in the FTSE Women Leaders Review, which is an independent, business-led framework supported by Government which sets recommendations to improve the representation of women on the boards and leadership teams of the FTSE 350 and 50 of the UK's largest private companies. The HAHL Board also discloses information about the ethnicity of its Directors in accordance with the recommendations of the Parker Report. More information can be found in the Remuneration Committee Report on page 128.

2023 HAHL BOARD ACTIVITIES

The HAHL Board held eleven scheduled monthly meetings during the year ended 31 December 2023. Four additional meetings were also held to consider regulatory and other issues. HAHL Board members also attended monthly Board Working Group meetings, and a joint strategy session was held in conjunction with the Executive Committee in May. In addition, two Board dinners were held in May and October. During the year the HAHL Board focused on a number of areas as set out below.

2023 HAHL Board Activities

SAFETY

- Monitored and reviewed health and safety measures across the airport and the welfare of passengers and colleagues.
- Monthly Safety Moments, covering a broad range of safety topics.

STRATEGY AND OPERATIONAL

- Build Back Capacity Programme.
- Passenger demand and growth strategy.
- Considered operational and business performance.
- Next Generation Security Programme.
- Asset Management Compliance Programme.
- Considered airport readiness.
- Received updates on material communications with regulators and considered the impact of changes in regulation and developing regulation.
- Commercial strategy including retail, 2024 aero charges and other regulated charges.
- Top 10 KPIs and 2024 Targets.
- People Change Strategy and Colleague Engagement Plan.
- Industrial Relations Strategy.
- Acquisition of the Compass Centre
- Corporate Simplification.
- ULEZ extension mitigation
- Procurement Strategy.
- Sustainability and Carbon Strategy.

FINANCIAL PERFORMANCE

- Protected and monitored liquidity.
- Reviewed financial performance and forecasts.
- Considered and approved the 2024 Management Business Plan.
- Reviewed and approved results announcements.
- Raised £780 million of Class A funding which includes our debut Sustainability-Linked Bond and debut wrapped bond, both of which provide additional diversification to our debt portfolio. In addition, we converted our Revolving Credit Facility and Working Capital Facility to a Sustainability-Linked Loan.

LEADERSHIP AND STAKEHOLDERS

- Discussed the approach to workforce engagement.
- Considered updates on diversity and succession planning.
- Considered Heathrow's Sustainable Communities and Charity Partnerships.
- Guest Speakers.

GOVERNANCE

- Reviewed and approved the 2022 Annual Report and Financial Statements.
- Considered improvements to existing corporate governance arrangements, including additional reporting requirements and the Wates Principles.
- Considered output from the HAHL Board evaluation process.
- Considered and agreed key risks and their mitigation and control.
- Agreed Modern Slavery Act Statement.
- Approved 2023 Continuity of Service Plan.
- Reviewed and approved Group Policies.
- Approved Board Committees' Terms of Reference.

HAHL BOARD AND COMMITTEE MEETING ATTENDANCE

The Directors' attendance at formally scheduled HAHL Board and Committee meetings during the year is recorded in the following table. It shows the number of formally scheduled HAHL Board and Committee meetings attended by each Director, or their alternate Director. Alternate Directors also occasionally attend HAHL Board meetings in an 'observer' capacity, but this attendance is not shown. The HAHL Board held eleven scheduled monthly meetings and four additional meetings during the year ended 31 December 2023.

	HAHL Board	Audit Committee	Finance Committee[7]	Nominations Committee	Remuneration Committee	Sustainability and Operational Risk Committee
Total meetings held during the period	**15**	**5**	**1**	**7**	**6**	**4**
Independent Non-Executive Directors						
Lord Paul Deighton	15	–	–	7	–	–
Rt. Hon Ruth Kelly	15	5	1	–	–	–
Joan MacNaughton	15	–	–	–	–	4
Mark Brooker	15	–	–	–	6	3
Non-Executive Shareholder Directors and their alternates						
His Excellency Akbar Al Baker (Ali Bouzarif[1])	15	5	–	7	–	4
Ahmed Al-Hammadi (Deven Karnik[1])	15	–	1	–	5	–
Stuart Baldwin (Jessie Jin/Andrew Dallal[1])	15	–	1	7	5	–
Chris Beale[2] (Sam Coxe/Benjamin Catt[1])	5	–	–	-	1	–
Luke Bugeja (David Kenny/Andrew Carlisle/Laura López Sotomayor/Juan Carlos Bullón Alemán[1])	15	3	–	7	6	4
Maria Casero[3] (David Kenny/Andrew Carlisle/Laura López Sotomayor/Juan Carlos Bullón Alemán[1])	10	–	–	–	–	–
Raymond Chan[2] (Richard Hedley, William Loc[1])	10	–	1	–	–	–
Olivier Fortin	15	5	1	–	–	3
Shawn Kinder[3] (Andrew Carlisle/Laura López Sotomayor/ Juan Carlos Bullón Alemán[1])	5	–	–	–	–	–
Ernesto Lopez Mozo (David Kenny/ Andrew Carlisle/Laura López Sotomayor/ Juan Carlos Bullón Alemán[1])	15	5	1	–	5	–
Mike Powell (Mary Ann Hogan[1])	15	–	1	7	–	–
David Xie (Ben Niu[1])	15	–	1	–	–	–
Executive Directors						
John Holland-Kaye[4]	13	4	–	–	4	3
Thomas Woldbye[5]	3	1	–	–	–	1
Javier Echave[6]	15	5	1	–	–	3

1 Alternate Directors.
2 Chris Beale resigned from the HAHL Board on 9 May 2023 and was replaced by Raymond Chan.
3 Maria Casero resigned from the HAHL Board on 21 September 2023 and was replaced by Shawn Kinder.
4 John Holland-Kaye resigned as Chief Executive Officer and as an Executive Director on the HAHL Board on 18 October 2023.
5 Thomas Woldbye was appointed as Chief Executive Officer and as an Executive Director on the HAHL Board on 18 October 2023 and replaced John Holland-Kaye. The Chief Executive Officer is invited to attend meetings of the Audit Committee, Nominations Committee and Remuneration Committee, but is not a member of those committees.
6 The Chief Financial Officer is invited to attend the meetings of the Audit Committee and Sustainability and Operational Risk Committee but is not a member of those committees.
7 A number of additional Finance Committee approvals were obtained by email circulation to the members throughout the year and were subsequently ratified.

EFFECTIVENESS

INDUCTION AND INFORMATION

A comprehensive induction programme is provided for all new HAHL Board Directors. Our Directors update their skills, knowledge and familiarity with the HAHL Group by regularly meeting with senior management, attending operational site visits, strategy sessions with the Executive Committee and regular training sessions. All HAHL Board Directors have access to the advice and services of the Company Secretary and the Heathrow Group's Legal team. They may also take independent professional advice at the company's expense.

Thomas Woldbye, who was appointed CEO in October, followed a tailored induction programme covering a range of key areas of the business. He was given a board induction pack containing information about the Company and the HAHL Board to assist with building an understanding of the nature of the HAHL Group, its business, markets and people, and to provide an understanding of the HAHL Group's main relationships. The pack included information to help facilitate a thorough understanding of the role of a Director and the framework within which the HAHL Board operates. In addition, Thomas met with key colleagues across the business to better understand the areas of the business.

The Chairman and Company Secretary are responsible for ensuring that Directors receive accurate, timely and clear information. To ensure that adequate time is available for Board discussion and to enable informed decision-making, briefing papers are prepared and circulated to Directors a week prior to scheduled HAHL Board meetings.

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

Key financial information is collated from the Heathrow Group's various accounting systems. The HAHL Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Statutory financial information is externally audited by PricewaterhouseCoopers LLP on an annual basis, and financial controls are reviewed by the Group's internal audit function.

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

TRAINING AND DEVELOPMENT

Directors' training and development needs are of key importance in order to discharge their duties effectively. Directors are encouraged to highlight specific areas where they feel their skills or knowledge would benefit from further development as part of the annual Board evaluation process. Training opportunities are provided through internal meetings, working groups, presentations and briefings by internal advisers and business heads. Our Directors also receive training on their duties (including under section 172(1) of the Companies Act), as part of their induction, to ensure they are aware of their duty to promote the long-term success of the Company for the benefit of its key stakeholders.

CONFLICTS OF INTEREST

Directors have a statutory duty to avoid situations in which they have, or may have, interests that conflict with those of Heathrow, unless that conflict is first authorised by the HAHL Board. The Company has procedures in place for managing Directors' conflicts of interest. The Company's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law. Directors are required to disclose any potential conflicts of interest and a Conflicts Register is maintained to ensure Directors' conflicts can be managed effectively.

BOARD EVALUATION

The HAHL Board considers the regular review of its function, Committees and Directors to be an essential element of good corporate governance and important for identifying key areas of focus for future improvement and for strengthening its overall performance. Internal self-evaluation assessments were carried out in December 2022 and November 2023. The reviews were conducted by questionnaire, which sought the Directors' feedback on all aspects of the performance of the HAHL Board and its Committees, including board composition, behaviours and dynamics, HAHL Board facilities, the number and length of meetings, agendas, the quality of information, the Chairman's leadership and focus, strategic oversight, interaction between the HAHL Board and its Committees, overview of risk, succession planning, induction and training, and priorities for change. The results were collated by the Company Secretary and anonymised before being discussed with the Chairman and the HAHL Board for consideration and recommendations, with follow-up actions debated and adopted as appropriate.

2022 INTERNAL EVALUATION

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

Areas of Focus Identified

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

Actions

Following a review of the feedback received from the HAHL Board during the 2022 internal evaluation, the below actions were undertaken:

1. The HAHL Board agreed that in 2024 the number of HAHL Board meetings would be reduced from 11 to 9, consisting of 4 'in-person' meetings and 5 Teams meetings. The in-person meetings would remain the same length (4 hours) and the Teams meetings would reduce in length to 2.5 hours. In the three months where no board meetings are held, a light board pack will be circulated to the HAHL Board. The current arrangements for holding HAHL Board Working Group meetings were considered appropriate and meetings would continue to be held on a monthly basis but would be kept under review.
2. Overall, the quality and consistency of HAHL Board materials was considered to be good but would be kept under review. HAHL Board members had commented that some papers were too long and business functions have been reminded to adhere to the rules governing the format and length of papers. A project was launched during the year to review the HAHL Board's software platform used for sharing board and committee materials to see whether it could be improved.
3. The HAHL Board's programme for inviting external guest speakers has been refreshed, with speakers invited to attend and speak at HAHL Board meetings and other HAHL Board events.

2023 INTERNAL EVALUATION

An internal evaluation was undertaken during November 2023. Overall, there was a majority consensus that the HAHL Board and its committees were functioning well and were effective. One of the key themes which emerged from the review was a desire to further improve the HAHL Board's facilities, with particular focus on improving the board room and tools used to distribute materials to Board and Committee members. Attention would also be given to monitoring and further improving Heathrow's programme of informal Board Working Group meetings. The key areas identified for increased focus and development during the 2024 financial year are set out below:

Areas of Focus Identified

1. To further update the HAHL Board's facilities, with particular focus on re-locating the existing board room in order to provide a larger and more conducive space for meetings.
2. To continue to review the HAHL Board's software platform, used for sharing information, with a view to improving its efficiency and making it more user-friendly for HAHL Board and Committee members.
3. To continue to review Heathrow's programme of informal Board Working Group meetings to ensure that Directors have an appropriate balance of formal meetings and informal deep dive sessions.

Overall, the review showed that there were no material shortcomings in relation to the operation of the HAHL Board and its Committees. The Chairman confirms that each Director continues to make a valuable contribution to the HAHL Board and, where relevant, its Committees.

AUDIT COMMITTEE

OLIVIER FORTIN, CHAIR
Non-Executive Shareholder Director - CDPQ

"The Audit Committee continues to monitor the integrity of financial information for the benefit of our Stakeholders"

OTHER COMMITTEE MEMBERS

Luke Bugeja, Non-Executive Shareholder Director – Ferrovial (represented by his alternate Laura López Sotomayor; appointed as Luke Bugeja's representative on the Committee 1 April 2023)

His Excellency Akbar Al Baker, Non-Executive Shareholder Director – Qatar Holding LLC (represented by his alternate Ali Bouzarif)

Ernesto Lopez, Non-Executive Shareholder Director – Ferrovial

Rt. Hon Ruth Kelly, Independent Non-Executive Director

COMMITTEE MEMBERS WHO STEPPED DOWN DURING THE YEAR

David Kenny resigned as Luke Bugeja's representative on the Committee 31 March 2023

INTRODUCTION

I am pleased to present the Audit Committee (the 'Committee') report for the year ended 31 December 2023. The Committee's primary responsibility is to provide support to the HAHL Board by exercising oversight of the integrity of the Group's financial and regulatory reporting, engaging with the external auditor, and overseeing the Group's control and risk management framework. Heathrow has experienced a strong recovery in passenger numbers during 2023 and the Committee has continued to oversee, monitor, challenge and support management in ensuring quality and integrity in Heathrow's accounting and reporting practices. There has been ongoing focus on the quality and integrity of Heathrow's reporting of climate-related financial information, ensuring compliance with the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures.

ROLES AND RESPONSIBILITIES

The Committee is a formal committee of the HAHL Board, and its responsibilities include:

- Considering the appointment of the external auditor, taking into account relevant ethical guidance and assessing the independence of the external auditor, ensuring that key audit personnel are rotated at appropriate intervals (including overseeing the process for selecting the external auditor and making recommendations to the HAHL Board).
- Recommending the audit fee to the HAHL Board for approval, and pre-approving any fees in respect of non-audit services provided by the external auditor and ensuring that the provision of non-audit services does not impair the external auditor's independence or objectivity.
- Agreeing with the external auditor the nature and the scope of the audit and reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- Reviewing reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- Reviewing Internal Audit reports to the Committee on the effectiveness of the HAHL Group's systems for internal control, financial reporting and risk management.
- Reviewing Heathrow's principal risks, with particular focus on financial-related risks, in conjunction with the Sustainability and Operational Risk Committee.
- Reviewing the external auditor's internal control recommendations and management's responses.
- Considering management's response to any major external or internal audit recommendations.

- Approving the appointment and discharge of the Director of Internal Audit, Risk and Assurance.
- Monitoring the integrity of the financial statements of the HAHL Group, reviewing and challenging where necessary the actions, accounting policies, and key judgements and estimates of management in relation to the interim and annual financial statements, and any press release related to those statements.
- Confirming that the financial statements are fair, balanced and understandable.
- Reviewing Heathrow's reporting of climate-related financial information and ensuring compliance with the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures.
- Overseeing the appointment of the Climate Change Board Director and making recommendations to the HAHL Board for their appointment for approval.
- Review and confirmation of the going concern disclosure for the Annual Report and Financial Statements.
- Overseeing all press releases relating to external financial results.
- Reviewing Heathrow's procedures for handling allegations from whistleblowers and overseeing the handling of allegations.
- Reviewing the ethics policy and monitoring its application throughout the business, considering any ethical issues which arise as a result of audit findings.
- Reviewing Internal Investigations, approving Internal Investigations Protocol and overseeing the handling of Internal Investigations.
- Reviewing Heathrow's tax policy and insurance strategy and arrangements.
- Reviewing the results of the Data Protection Officer's data privacy compliance monitoring programme and ensuring that the Data Protection Office is adequately resourced to carry out its tasks.
- Considering the adequacy of management's response to any major data privacy non-compliance findings as a result of monitoring activities.
- Considering any other topics, as defined by the HAHL Board.

2023 ACTIVITIES

The Committee held five scheduled meetings during the year, with members of senior management required to attend as and when appropriate. Meeting attendance can be found on page 121. An update was provided to the HAHL Board on key issues discussed during each of the Committees' meetings. In addition, the Committee Chair held regular private sessions with the Chief Financial Officer, and the senior finance team, and the Director of Business Assurance, and the external audit team, to ensure that open and informal lines of communication existed, and that any concerns could be raised outside formal meetings.

The Committee's main activities were to:

FINANCIAL REPORTING

- Review and recommend approval of the interim and preliminary results, Annual Report and Financial Statements and the associated going concern statements, taking into consideration the disclosures against FRC guidance.
- Review the annual statement of responsibility by management with respect to the internal control environment
- Review financial resilience and assumptions used to support the going concern statements.
- Independently challenge and endorse critical accounting judgements recommended by management.
- Review accounting developments and their impacts and significant accounting issues.
- Review and approve the approach to Climate-related Financial Disclosures ('CFD') for 2023 and the consistency between the potential future scenarios identified and any impact they may have on these financial statements.
- Review and approve the approach taken to manage the Group's distributable reserves.

EXTERNAL AUDIT

- Consider reports by the external auditor on its audit and its review of the financial statements.
- Review the external audit strategy and assess effectiveness of the external audit.
- Review audit and non-audit fees incurred in 2023.

INTERNAL AUDIT

- Approve the scope of the 2024 Internal Audit plan.
- Review delivery of the 2023 Internal Audit plan and approve any material changes to it.
- Review the conclusions, key findings and actions (remediation plans) from internal audits completed.
- Monitor progress of the implementation of actions from internal audit activity.
- Consider whether the internal audit function is adequately resourced.

RISK MANAGEMENT AND INTERNAL CONTROL

- Review the effectiveness of risk management and internal governance for the HAHL Group, particularly in relation to financial risks. Further detail on our approach to managing risk is included on page 64.
- Review the effectiveness of Heathrow's internal control systems and application of internal financial reporting controls.

GOVERNANCE AND OTHER

- Consider and approve our tax strategy and review tax matters.
- Review the Committee's terms of reference.
- Review and approve the Group's corporate simplification project.
- Review the implications of the Government's Consultation on Restoring Trust in Audit and Corporate Governance.
- Receive updates on financial and climate related reporting and other corporate governance-related matters.
- Receive quarterly updates from the Data Privacy Officer on Data Privacy compliance.
- Review Heathrow's procedures for the handling of allegations from whistleblowers, including reviewing reports from the Internal Investigations Steering Group, which is overseen by a designated Independent Non-Executive Director.

KEY JUDGEMENTS AND FINANCIAL REPORTING MATTERS

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

Key judgement and financial reporting matters	Audit Committee review and conclusions
Going concern The Directors are required to determine that the business is a going concern for at least 12 months from the date of approval of the Annual Report and Financial Statements.	The Committee reviewed the assumptions made and the disclosure in management's assessment of going concern. This included forecast operational cash flows, forecast capital expenditure, the overall group liquidity position, and impact on debt covenants. The Committee also considered the relationship between H7 prices and forecast passenger numbers, as well as the potential resultant impact to liquidity and debt covenant compliance. The Committee concluded that the Group has sufficient liquidity, with no breach of its covenants, including under the severe but plausible downside scenario, for at least 12 months from the date of these consolidated financial statements and that it was appropriate to prepare the financial statements on a going concern basis.
Assets held in the course of construction ('AICC') and probability of expansion The HAHL Group has a substantial capital programme which has been agreed with the regulator (the Civil Aviation Authority). Only those costs which satisfy the requirements of IAS16 'Property, Plant and Equipment' should be capitalised, which in some cases requires management judgement.	The Committee received regular updates on projects that were undertaken and the appropriateness of costs being capitalised. During the year, the Committee reviewed an impairment and write-off charge of £7 million on assets in the course of construction and concluded that the total charge recognised was appropriate. The Committee reviewed management's judgement in relation to the £506 million of expansion related AICC taking into consideration two primary factors which are the Airports National Policy Statement ('ANPS'), which remains in full force and effect, and the HAHL Board's continued support for expansion. The Committee further considered whether any of the existing assets were at risk of obsolescence, noting that management recognised no impairment in the current year. During 2023, surface access and environmental surveys were carried out which confirmed that previous works continue to have value to Heathrow now and in the future. Considering all factors in relation to expansion, including the legal and regulatory frameworks remaining in place, and noting the Board's continued support for the programme, the Committee concluded that it was probable expansion would occur. It therefore concluded that it was appropriate to recognise the expansion related AICC, that no additional impairment was required at this time, and that appropriate disclosures should be included in the financial statements.
Climate-related Financial Disclosures ('CFD') On the basis that climate change has been highlighted as a material risk, the Committee reviews CFD. It is also required to assess whether climate change risks provide indication that an asset may be impaired.	The Committee reviewed and approved the CFD in the Annual Report and Financial Statements. The Committee also considered whether there were any indicators of material impairment over property, plant and equipment, expansion AICC, goodwill (in regard to Heathrow Airport Holdings Limited and FGP Topco Limited) and other intangible assets, investments in subsidiaries, investment properties and deferred tax assets as result of the potential physical and transition risks arising from climate change that were identified in the CFD. The Committee agreed that it was appropriate that no further impairments were recognised in the year as a result of this exercise.

Key judgement and financial reporting matters	Audit Committee review and conclusions
Deferred tax assets Deferred tax assets are recognised in respect of all deductible temporary differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered.	The Committee reviewed management's assessment of whether future taxable profits and reversible taxable temporary differences support the recoverability of the deferred tax assets. The Committee agreed that deferred tax assets as at 31 December 2023 are recoverable, that no impairment was required at this time, and that appropriate disclosures should be included in the financial statements.
Fair value of investment properties The HAHL Group holds a variety of investment properties that are accounted for at fair value. In determining the fair value, judgement is required with regard to a number of valuation assumptions that include discount rates, property rental growth rate, operating cost and expected yields.	The Committee challenged and approved the key assumptions with reference to expert third party valuation advice. The review included consideration of the sensitivity of the valuation to changes in the key assumptions. The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note 7.
Valuation of the retirement benefit obligation The HAHL Group operates a defined benefit pension scheme with both open and closed sections. Assessing the defined benefit pension obligation requires significant estimate and judgement, in particular with regard to discount rate, inflation and mortality.	The Committee considered the methodology for the financial and demographic assumptions used in the calculation of the net defined benefit obligation. After receiving expert third party advice, the Committee concluded that the assumptions adopted for 2023 were based on reasonable methodology and within an acceptable range. The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note 16. Following the September 2022 Mini Budget and the implications for LDI portfolios, the scheme was reassessed to ensure collateral buffers remain prudent. Further, the company and trustees of the BAA DB scheme agreed to enter into dialogue should the funded status close two consecutive quarters below 95%. During 2023, the threshold was tested on a quarterly basis and there were no consecutive breaches.
Hedge accounting The HAHL Group designates certain derivative financial instruments as cash flow hedges. Significant changes in the expected quantum of future Sterling refinancing may lead to insufficient Sterling borrowings to support components of the cash flow hedge reserve, requiring the recycling of the cash flow hedge reserves through income statement.	The Committee received quarterly updates on management's assessments, including justification of the key assumptions which support the cash flow hedge reserve.
Fair value of derivative financial instruments The HAHL Group holds a substantial derivative financial instruments portfolio comprising interest rate swaps, cross currency swaps, and index-linked swaps which are accounted for at fair value. In determining the fair value, judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps).	The Committee received quarterly updates on the estimated fair value of open derivatives and justification of the valuation estimate. The current year fair value position was noted as being particularly volatile due to inflationary pressure in the UK economy. The Committee was satisfied that the volatility was being appropriately managed and did not risk the financial stability of the HAHL Group. The Committee supports management's decision to accept the recommendation of the International Financial Reporting Interpretations Committee ('IFRIC') not to designate index-linked swaps as an inflation hedge under IFRS 9. Further detail regarding the sensitivity of the year-end valuation to key assumptions can be found in note 14.

REMUNERATION COMMITTEE

LUKE BUGEJA, CHAIR
Non-Executive Shareholder Director – Ferrovial

> The Remuneration Committee has responsibility for determining the remuneration of members of the Executive Committee and senior managers."

OTHER COMMITTEE MEMBERS

Ernesto Lopez, Non-Executive Shareholder Director – Ferrovial

Stuart Baldwin, Non-Executive Shareholder Director – GIC

His Excellency Ahmed Al-Hammadi, Non-Executive Shareholder Director – Qatar Holding LLC

Mark Brooker, Independent Non-Executive Director

COMMITTEE MEMBERS WHO STEPPED DOWN DURING THE YEAR

Chris Beale, Non-Executive Shareholder Director - Alinda (resigned 9 May 2023)

INTRODUCTION

As Chair of the Remuneration Committee (the 'Committee') I am pleased to present the Committee's report for the year ended 31 December 2023. The Committee is responsible for making recommendations to the HAHL Board concerning the Group's remuneration strategy, framework and policy, and approving the compensation packages for senior executives. To make the best decisions for the Group, the Committee receives training from specialists and takes advice from independent external experts who provide updates on legislative requirements, market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the Group operates as well as from other sectors.

The HAHL Group is an active equal opportunities employer. It promotes an environment free from discrimination, harassment, and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices, including remuneration, are objective, free from bias and based solely upon work criteria and individual merit. Each year the Group publishes its Gender Pay Gap Report which can be found at **www.heathrow.com**, and for the third year the report also includes the Group's Ethnicity Pay Gap.

The FTSE Women Leaders Review is the independent, business-led framework supported by Government which sets recommendations to improve the representation of women on the boards and leadership teams of the FTSE 350 and 50 of the UK's largest private companies. In 2022 Heathrow was identified as a Top 50 Private Company and, for the first time, submitted its leadership gender data. Heathrow has continued to participate in the review for the second year in 2023.

For the first time in 2023, Heathrow also participated in The Parker Review and submitted the ethnic diversity data of the HAHL Board. This business-led and Government backed review seeks to ensure that all have an equal opportunity to make the most of their potential and can progress to the highest levels in their business careers.

ROLES AND RESPONSIBILITIES

The Committee is a formal committee of the HAHL Board, and its responsibilities include approvals of:

- The remuneration framework and policy for all colleagues.
- The compensation package of the members of the Executive Committee including salary, bonus, long-term incentive plans, pensions, and other incentive compensation.
- The remuneration of Independent Non-Executive Directors.
- The contractual terms for the members of the Executive Committee and Independent Non-Executive Directors.
- The design, terms, and outcomes of all annual bonus plans.
- The design, terms, and outcomes of all long-term incentive plans.
- The budget for the annual salary review of all colleagues in management grades and the Pay Deal for colleagues in negotiated grades.
- The design and strategy for Heathrow's pension plans.

2023 ACTIVITIES

The Committee held four scheduled meetings during the year as well as two additional meetings; to review performance of the 2022 People Plan and the 2023 key People Priorities and separately to approve the outcome of the 2021 Business Recovery Incentive Plan and the Chief Executive Officer's remuneration. Meeting attendance can be found on page 121.

The Committee's main activities were to:

- Approve outcome and payment of the 2022 annual bonus plans.
- Approve outcome and payment of the 2021 Business Recover Incentive Plan.
- Approve the design, targets and launch of the 2023 annual bonus plans.
- Approve the 2023 Annual Salary Review for management and the Executive Committee.
- Approve the fees for the Non-Executive Directors.
- Approve the negotiation framework and budget for the two year, 2023 and 2024, Pay Deal for colleagues in negotiated grades.
- Approve the design, targets and launch of the 2023 Share in Success Saver and Grant long-term incentive plans.
- Discuss the design and metrics for the 2024 annual bonus and Share in Success plans.
- Approve 2024 Annual Salary Review budget for management.
- Review Chief Executive Officer Pay Ratio.
- Review 2023 Gender and Ethnicity Pay Gap data and Report.
- Review 2022 FTSE Women Leaders Review.
- Approve participation in the 2023 FTSE Women Leaders Review and 2023 Parker Review.
- Approve retention bonus payments.
- Review of the Committee Terms of Reference.
- Conduct an effectiveness review.
- The Committee were provided with updates on the following topics:
  - Resourcing.
  - Management Learning Programme.
  - Health and Wellbeing Strategy.
  - Heathrow Employment Skills and Academy.
  - 2023 People Plan and 2024 People Priorities.
  - Equality, Diversity, and Inclusion ('ED&I') Strategy.
  - Reward market review and trends including a review of Executive benchmarking.

REMUNERATION AND COMPONENTS

The Committee reviews Heathrow's remuneration structure each year to ensure that the framework supports Heathrow's strategic ambitions and rewards Directors fairly for the contribution that they make to the business.

Remuneration is set with reference to the market and at a level that will enhance Heathrow's resources by attracting and retaining quality leaders who can deliver Heathrow's strategic ambitions in a manner consistent with its values, purpose, and the interests of its Shareholders.

The remuneration policy reflects the complexity and significance of one of the world's largest airports. An Executive Director's remuneration comprises a base salary, benefits, retirement provisions, annual bonus and long-term incentive plans.

To ensure that remuneration is aligned to Heathrow's carbon and sustainability targets, an environmental, social and corporate governance ('ESG') carbon performance metric is included in all long-term incentive plans, focusing individual behaviour on making sustainable choices and rewarding sustainable outcomes.

EXECUTIVE AND WIDER WORKFORCE REMUNERATION POLICY TABLE

The Committee takes into account fair pay and conditions across Heathrow's workforce when setting the Executive Directors' remuneration policy. Pay components vary by an individual's organisational band (level in the organisation). The key components of the Executive Committee's remuneration relative to the wider workforce are summarised below:

Component and purpose in supporting business strategy	Executive committee[1]	Other management colleagues	Negotiated grade colleagues
Base salary To secure and retain quality individuals to deliver Heathrow's strategy.	Base salaries are typically reviewed annually and are set taking into account: • The role's scope, responsibilities and accountabilities. • Remuneration benchmarking and competitive market practice. • Individual performance. • Fair pay and conditions across Heathrow's workforce.	Base salaries are reviewed annually and are set taking into account: • The role's scope, responsibilities and accountabilities. • Remuneration benchmarking and competitive market practice. • Individual performance. • Fair pay and conditions across Heathrow's workforce.	Salaries are subject to collective bargaining with Heathrow's recognised Trade Unions.
Benefits To comprise part of a market competitive remuneration package.	Benefits include cash travel allowance, private healthcare, private health assessment, life assurance and income protection.	Eligibility for benefits is determined by an individual's organisational band and includes some or all of: cash travel allowance, private healthcare, private health assessment, life assurance and income protection.	Benefits include life assurance and income protection.
Retirement provisions To comprise part of a market competitive remuneration package, rewarding sustained contribution and encouraging retention.	The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date. Pension provision is available for all other colleagues through a Defined Contribution Pension Plan. Colleague contribution rates are either 3%, 5% and 8% of base salary, coupled with an employer contribution of 8%, 10%, 12% respectively. The Chief Executive Officer pension provision is through a Defined Contribution Pension Plan. The Chief Executive Officer contribution rate is 5% of base salary, coupled with an employer contribution of 10%. Colleagues impacted by the Annual Allowance may opt for an Employer Pension Contribution equal to their Annual Allowance, if applicable, and the balance of the Employer Pension Contribution payable as a cash allowance.	The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date. Pension provision is available for all other colleagues through a Defined Contribution Pension Plan. Colleague contribution rates are either 3%, 5% and 8% of base salary, coupled with an employer contribution of 8%, 10%, 12% respectively. Colleagues impacted by the Annual Allowance may opt for an Employer Pension Contribution equal to their Annual Allowance, if applicable, and the balance of the Employer Pension Contribution payable as a cash allowance.	The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date. Pension provision is available for all other colleagues through a Defined Contribution Pension Plan. Colleague contribution rates are either 3%, 5% and 8% of base salary, coupled with an employer contribution of 8%, 10%, 12% respectively. Colleagues impacted by the Annual Allowance may opt for an Employer Pension Contribution equal to their Annual Allowance, if applicable, and the balance of the Employer Pension Contribution payable as a cash allowance.

[1] Also applies to the Directors of Heathrow Airport Ltd.

Component and purpose in supporting business strategy	Executive committee[1]	Other management colleagues	Negotiated grade colleagues
Annual bonus Motivates the achievement of Heathrow's strategic ambitions, linking this with annual measurable performance criteria and rewarding individual contributions to Heathrow's success.	The Executive Committee participate in the Heathrow Bonus Plan. In 2023, the company performance multiplier is measured against an EBITDA target and the plan includes an individual performance multiplier based on the 2023 end of year performance rating. Subject to satisfying individual and financial performance criteria, the maximum incentive opportunity is 180% of base salary for the Chief Executive Officer. This is paid in March of the following year.	Management colleagues participate in the Heathrow Bonus Plan. In 2023 the company performance multiplier is measured against targets for EBITDA (60% weighting), Net Operating Expenses (10% weighting), Airport Service Quality ('ASQ') metric (10% weighting), Service provided through Here to Help shifts (10% weighting) and a Safety Close Call Reporting metric (10% weighting). An individual performance multiplier is based on the 2023 end of year performance rating. Eligibility for annual bonus and target bonus opportunity is determined by an individual's organisational band e.g., target value of 10% of salary. Subject to satisfying individual and financial performance criteria, the maximum bonus opportunity for participants is 200% of target e.g., 20% of salary. This is paid in March of the following year.	Frontline colleagues participate in the Airport Profit Bonus with payment determined by EBITDA performance.

Component and purpose in supporting business strategy	Executive committee[1]	Management colleagues	Negotiated grade colleagues
Long-term incentive plan Aligns the interests of Executive Directors with those of our Shareholders, rewarding long-term sustainable results, creating shareholder value and encouraging retention.	The Executive Committee participate in the Heathrow Share in Success ('SIS') Grant (long-term incentive plan) designed to reward the most senior leaders for the success of Heathrow over a three-year period. Executive Directors are allocated an award at the start of the plan, with a maximum face value of 280% of base salary for the Chief Executive Officer. Each Executive Director will receive a cash payment provided that Heathrow meets agreed performance conditions measured over a three-year period. The 2021, 2022 and 2023 SIS Grants are measured against EBITDA, Service, Carbon: reducing carbon emissions at the airport both 'On the Ground' and 'In the Air', and Engagement. For each performance metric, entry-level performance results in zero vesting, target-level performance results in 50% vesting and maximum level performance results in 100% vesting. Currently, there are three SIS Grant plans in operation: • 2021 SIS Grant: performance is measured over 2021 to 2023; payable in August 2024. • 2022 SIS Grant: performance is measured over 2022 to 2024; payable in August 2025. • 2023 SIS Grant: performance is measured over 2023 to 2025; payable in August 2026. Each year, the Committee review and can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards.	Members of senior management participate in the Heathrow SIS Grant (long-term incentive plan) designed to reward the most senior leaders for the success of Heathrow over a three-year period. Senior Managers are allocated an award with a maximum face value determined by an individual's organisational band. Each participant will receive a cash payment provided that Heathrow meets agreed performance conditions measured over a three-year period. The 2021,2022 and 2023 SIS Grants are measured against EBITDA, Service, Carbon: reducing carbon emissions at the airport both 'On the Ground' and 'In the Air', and Engagement. For each performance metric, entry-level performance results in zero vesting, target-level performance results in 50% vesting and maximum level performance results in 100% vesting. Currently, there are three SIS Grant plans in operation: • 2021 SIS Grant: performance is measured over 2021 to 2023; payable in August 2024. • 2022 SIS Grant: performance is measured over 2022 to 2024; payable in August 2025. • 2023 SIS Grant: performance is measured over 2023 to 2025; payable in August 2026. Each year, the Committee review and can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards. Management colleagues not eligible to participate in the SIS Grant, are eligible to participate in the SIS Saver plan, where colleagues have the opportunity to save in return for a bonus, subject to company performance. The 2021,2022 and 2023 SIS Saver Plans are measured against EBITDA, Service, and Carbon: reducing carbon emissions at the airport 'On the Ground'. For each performance metric, entry-level performance results in zero vesting, target-level performance results in 50% vesting and maximum level performance results in 100% vesting. Currently, there are three SIS Saver plans in operation: • 2021 SIS Saver: performance is measured over 2021 to 2023; payable in November 2024. • 2022 SIS Saver: performance is measured over 2022 to 2024; payable in October 2025. • 2023 SIS Saver performance is measured over 2023 to 2025; payable in October 2026.	The wider colleague population are eligible to participate in the SIS Saver plan, where colleagues have the opportunity to save in return for a bonus, subject to company performance. The 2021,2022 and 2023 SIS Saver Plans are measured against EBITDA, Service, and Carbon: reducing carbon emissions at the airport 'On the Ground'. For each performance metric, entry-level performance results in zero vesting, target-level performance results in 50% vesting and maximum level performance results in 100% vesting. Currently, there are three SIS Saver plans in operation: • 2021 SIS Saver: performance is measured over 2021 to 2023; payable in November 2024. • 2022 SIS Saver: performance is measured over 2022 to 2024; payable in October 2025. • 2023 SIS Saver performance is measured over 2023 to 2025; payable in October 2026.

[1] Also applies to the Directors of Heathrow Airport Ltd.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REWARDS

POTENTIAL REWARD OPPORTUNITIES AT DIFFERENT LEVELS OF PERFORMANCE

The graph below represents the Chief Executive Officer's total remuneration levels, summarised in the remuneration policy table, under the different performance scenarios: Minimum, Target and Maximum, if all incentive plans were active. The remuneration policy aligns a high proportion of total executive remuneration with the performance of the Group.

Minimum: Fixed pay comprising annual base salary, pension and benefits (at 31 December 2023).
Target: Minimum plus target annual bonus, at 90% of base salary, and target long term incentives, at 140% of base salary.
Maximum: Minimum plus maximum annual bonus, at 180% of base salary, and maximum long term incentives, at 280% of base salary.

CHIEF EXECUTIVE OFFICER REMUNERATION

The table below presents the remuneration figures for the Chief Executive Officer for the years ended 31 December 2022 and 31 December 2023:

	Fixed pay (£)					Performance pay (£)			
2023	**Salary**	**Benefits[1]**	**Pension**	**Other**	**Sub-total**	**Annual bonus[4]**	**LTIP[5]**	**Sub-total**	**Total**
Chief Executive Officer									
Thomas Woldbye	153,226	36,303	15,322	596,250[2]	801,101	234,450	-	234,450	1,035,551
John Holland-Kaye	623,029	14,295	186,909	1,874,415[3]	2,698,648	1,219,701	2,484,115	3,703,816	6,402,464

[1] Benefits includes cash travel and taxable benefits.
[2] Thomas Woldbye was paid a sign on bonus for forfeited bonus and LTIP from his previous employer.
[3] John Holland-Kaye was paid a termination payment, PILON and outstanding leave.
[4] Accrued 2023 annual bonus, payable in March 2024. These figures are the accrued values prior to Remuneration Committee approval and may differ from actual final payment made.
[5] Expected 2021 SIS Grant to be paid in August 2024 (based on performance measured over the three years 2021 to 2023) and one off incentive grant. Figures are the accrued values prior to Remuneration Committee approval and may differ from actual final payment made.

	Fixed pay (£)				Performance pay (£)			
2022	**Salary**	**Benefits[1]**	**Pension**	**Sub-total**	**Annual bonus[2]**	**LTI[3]**	**Sub-total**	**Total**
Chief Executive Officer								
John Holland-Kaye	775,961	18,034	232,788	1,026,783	1,396,967	1,780,736	3,177,704	4,204,486

[1] Benefits includes cash travel and taxable benefits.
[2] Actual 2022 annual bonus. Prior year accrued annual bonus has been updated to reflect the actual payment made.
[3] Actual one off incentive grant and Retention Plan, to incentivise the delivery of metrics relating to ensuring the survival of our business through the pandemic and subsequent business recovery in 2021 and 2022. Prior year expected grant has been updated to reflect the actual payment made.

POLICY FOR NON-EXECUTIVE DIRECTORS

The Chairman and Independent Non-Executive Directors receive fees for their services and are not eligible to participate in benefit, pension or bonus and other incentive plans.

The Committee approves the contractual terms, remuneration and compensation packages of the Chairman and Independent Non-Executive Directors.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the HAHL Group.

SUSTAINABILITY AND OPERATIONAL RISK COMMITTEE

JOAN MACNAUGHTON, CHAIR
Independent Non-Executive Director

"The Sustainability and Operational Risk Committee reviews safety performance and challenges Heathrow's policies, conduct, performance and risk management approach against the Group's sustainability goals and operational objectives."

OTHER COMMITTEE MEMBERS

Thomas Woldbye, Chief Executive Officer (appointed 30 November 2023)

Shawn Kinder, Non-Executive Shareholder Director - Ferrovial (appointed 21 September 2023)

Olivier Fortin, Non-Executive Shareholder Director - CDPQ

His Excellency Akbar Al-Baker, Non-Executive Shareholder Director - Qatar Holding LLC (represented by his alternate Ali Bouzarif)

Mark Brooker, Independent Non-Executive Director

Mine Hifzi, General Counsel and Company Secretary

COMMITTEE MEMBERS WHO STEPPED DOWN DURING THE YEAR

John Holland-Kaye, CEO (resigned 18 October 2023)

Maria Casero, Non-Executive Shareholder Director - Ferrovial (appointed 1 April 2023 and resigned 21 September 2023)

Luke Bugeja, Non-Executive Shareholder Director - Ferrovial (resigned 31 March 2023; represented by his alternate David Kenny)

INTRODUCTION

I am pleased to present the Sustainability and Operational Risk Committee ('SORC' or the 'Committee') report for the year ended 31 December 2023. The SORC continued to perform a valuable role reviewing and constructively challenging Heathrow's safety performance, measures, policies, conduct, and risk management approach against sustainability goals and operational objectives.

The Committee reviewed safety reports relating to the Heathrow Express rail service, airside safety, fire safety and occupational health and safety in general. Other areas of focus included Heathrow's overall operational resilience, carbon and sustainability plans, Heathrow's Cyber Security Programme, colleague absence trends, and how to facilitate an enhanced safety culture across all of the organisations operating at Heathrow.

ROLES AND RESPONSIBILITIES

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

- Reviewing Heathrow's performance, policies, conduct, and risk management approach against sustainability goals and operational objectives.
- Reviewing and challenging the performance and conduct of the HAHL Group relating to operational risks and delivery of sustainability goals.
- Monitoring and challenging management over the effectiveness of the relevant internal control systems, for which it has access to, and any audit or assurance report it considers relevant.
- Reviewing and assessing management's response to significant operational incidents, for which it has access to, and any accident and investigation report it considers relevant.
- Monitoring and challenging the appropriateness of sustainability and operational risk assurance strategies and plans, the execution and results of such plans, and relevant communications.

2023 ACTIVITIES

The SORC held four scheduled meetings during the year. Meeting attendance can be found on page 121. An update was provided to the Board on key issues discussed during each of the Committee's meetings. The Committee's main activities were to:

SAFETY

- Review and advise on safety performance and the actions being taken to ensure compliance, to improve the standard of health and safety, to strengthen Heathrow's safety culture, and to ensure resilience to the risk of fire.
- Review incidents, using the learnings to develop and promote best-in-class safety performance.
- Consider how best to sustain and improve the health and wellbeing of colleagues at Heathrow.
- Review the Heathrow Express and Aviation Safety Reports.
- Approve Heathrow's Group Policies relating to Health and Safety and Sustainability.

SECURITY

- Review and advise on cyber security strategy, cyber incidents, cyber insurance risks and mitigation initiatives.
- Review and advise on aerodrome security threats, improvements to security, and the learnings from external and in-house assessments.

SUSTAINABILITY

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

RISK AND ASSURANCE

- Review the principal risks to ensure alignment with the corporate-governance framework and strategy, working alongside the Audit and Risk and Assurance Committees to discharge both committees' respective responsibilities.
- Provide challenge to the business with regards to relevant audit and assurance reports.
- Review Heathrow's 2023 Top 10 KPI Targets.

NOMINATIONS COMMITTEE

LORD DEIGHTON, CHAIR
Chairman of the HAHL Board and Independent Non-Executive Director

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

OTHER COMMITTEE MEMBERS

Luke Bugeja, Non-Executive Shareholder Director - Ferrovial

His Excellency Akbar Al-Baker, Non-Executive Shareholder Director - Qatar Holding LLC

Stuart Baldwin, Non-Executive Shareholder Director - GIC

Mike Powell, Non-Executive Shareholder Director - USS

INTRODUCTION

I am pleased to present the Nominations Committee (the 'Committee') report for the year ended 31 December 2023. The purpose of the Committee is to maintain an appropriate balance of skills, experience, independence and diversity on the HAHL Board.

The Committee also reviews the size, structure and composition of the HAHL Board and ensures that there is a robust and transparent process for the appointment of new senior executives and Independent Non-Executive Directors. Throughout the year the Committee's main focus was to recruit a new Chief Executive Officer to replace John Holland-Kaye.

ROLES AND RESPONSIBILITIES

The Committee is a formal committee of the HAHL Board, and its responsibilities include:

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

2023 ACTIVITIES

The Nominations Committee met 7 times during the year. Meeting attendance can be found on page 121.

Appointment of Thomas Woldbye as Chief Executive Officer:

The Committee recommended the appointment of Thomas Woldbye as Heathrow's new Chief Executive Officer, who was appointed on 18 October 2023 and replaced John Holland-Kaye.

ESTABLISHING ROLE REQUIREMENTS

The Nominations Committee commenced a recruitment process for a new Chief Executive Officer in October 2022. The Chief People Officer and Chair of the Committee prepared the role specification for the search, which focused on strong strategic, operational and technical experience, along with excellent relationship skills. The specification was approved by the Committee.

IDENTIFYING CANDIDATES

The Committee approved the engagement of an external search consultant to assist with the search and, following a review of executive search firms, Korn Ferry was engaged based on their previous experience of delivering similar roles, their knowledge of the industry, their access to diverse candidates and their competitive pricing. Following a detailed discussion with Korn Ferry a candidate brief was developed.

A diverse pool of circa 20 candidates was initially identified from both inside and outside the industry. Following consultation between The Committee and Korn Ferry, the list was reduced to 14 candidates to proceed to the First Stage Assessment.

PROCESS

FIRST STAGE ASSESSMENT

The First Stage Assessment comprised a first stage interview with Korn Ferry. Seven candidates progressed to the Second Stage Assessment.

SECOND STAGE ASSESSMENT

The Second Stage Assessment comprised a comprehensive interview and leadership assessment with Korn Ferry. Reports were shared with the Committee and a decision was made for five candidates to be progressed to the Final Stage Assessment.

FINAL STAGE ASSESSMENT

The Final Stage Assessment comprised an interview with the Committee members who were split into two interview panels to ensure that all areas of the job specification were adequately covered.

FINAL DECISION

The Committee reviewed the feedback from the assessment process. Ferrovial recommended that Thomas Woldbye should be appointed, and the Committee members endorsed this recommendation. The Remuneration Committee approved the proposed remuneration package and the HAHL Board subsequently approved Thomas' appointment. He was appointed as Heathrow's Chief Executive Officer and as an executive director of the HAHL Board on 18 October 2023.

FINANCE COMMITTEE

ERNESTO LOPEZ, CHAIR
Non-Executive Shareholder Director - Ferrovial

"The Finance Committee's key role is to review and approve matters relating to financing the HAHL Group and to act as a forum for obtaining consents from Shareholders of FGP Topco Limited pursuant to the Shareholders' Agreement."

OTHER COMMITTEE MEMBERS

Thomas Woldbye, Chief Executive Officer (appointed 30 November 2023)

Javier Echave, Chief Financial Officer

Rt. Hon Ruth Kelly, Independent Non-Executive Director

A Non-Executive Shareholder Director representing each Shareholder entitled to appoint a Director to the HAHL Board

COMMITTEE MEMBERS WHO STEPPED DOWN DURING THE YEAR

John Holland-Kaye, Chief Executive Officer (resigned 18 October 2023)

INTRODUCTION

I am pleased to present the Finance Committee (the 'Committee') report for the year ended 31 December 2023. The Committee acts as both a HAHL Board Committee for the approval of matters relating to the financing of the HAHL Group and a forum for obtaining consents required from the Shareholders of FGP Topco Limited pursuant to the Shareholders' Agreement. The Committee's primary focus has been on ensuring that the HAHL Group maintains sufficient liquidity at all levels of the capital structure at all times, and that its financial covenants were protected in a high inflation and rising interest rates environment.

The HAHL Group has continued to navigate volatile markets, retaining access to public and private debt issuance amidst an uncertain Civil Aviation Authority ('CAA')/ Competition and Markets Authority ('CMA') outcome and as the collapse of Credit Suisse generated fears of banking contagion whilst impacting market liquidity. Despite being faced by these challenges, Heathrow most notably issued a pioneering and market leading Sustainability-Linked Bond with KPIs reflecting its entire Carbon exposure alongside an associated Sustainability-Linked Derivative.

Furthermore, the Revolving Credit Facility was extended, protecting liquidity to 2027, and was converted into a Sustainability-Linked Loan, with targets linked to both Carbon and Diversity and Inclusion. Finally, the issuance of an insurance wrapped bond provides an avenue for additional capacity in the face of future challenges whether they be from downside crises or opportunities such as expansion.

ROLES AND RESPONSIBILITIES

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

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

2023 ACTIVITIES

The Committee held one meeting during the year and details of meeting attendance can be found on page 121. A number of finance approvals were also obtained by email circulation and subsequently ratified at meetings. The Committee's main activities were to review and/or approve:

- Debt funding for Heathrow, including bond issuances, credit facilities, private placements and extending the revolving credit and liquidity facilities.
- The Sustainability-Linked Bond Framework and associated environmental, social and governance ('ESG') KPIs.
- The Heathrow (SP) Limited and Heathrow Finance plc 2023 Investor Reports.
- The base prospectus, subsequent supplements and the drawdown prospectus pertaining to wrapped issuances for Heathrow Funding Limited.
- The early accretion paydown on inflation-linked swaps.
- Cash upstreaming from the Heathrow (SP) Limited Group to Heathrow Finance plc and ADI Finance 2 Limited.
- The early repayment of debt held at ADI Finance 2 Limited.
- The appointment of a financial advisor to consult on the financing strategy assessment.
- Heathrow's Payment and Revenue Policy.
- Heathrow's Resourcing and Cost Protection Plan.
- Heathrow's weekly Financing Dashboard.

HEATHROW AIRPORT LIMITED DIRECTORS' REPORT

The Directors present their Annual Report and audited financial statements for the Company for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The profit after taxation for the financial year amounted to £779 million (2022: £408 million). No dividends were paid to Heathrow (AH) Limited during the year (2022: £nil). The statutory results for the year are set out on page 158.

The financial statements have been prepared on a going concern basis as detailed in the going concern statement on page 163 in the Company's accounting policies.

DIRECTORS

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

Chris Annetts
Ross Baker
Javier Echave
Helen Elsby
Emma Gilthorpe
John Holland-Kaye
(resigned 18 October 2023)
Thomas Woldbye
(appointed 18 October 2023)
Nigel Milton
Paula Stannett
Mine Ozkan Hifzi

COMPANY SECRETARY

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

EMPLOYMENT POLICIES

The Company'has no direct employees. The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the HAHL Group. The Company directly incurs the employment cost of services provided to the Group as stated in the accounting policies on page 174.

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

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

The Company 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 Compnay 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 114.

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 96.

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 96.

STREAMLINED ENERGY AND CARBON REPORTING

The Group's reporting in relation to Streamlined Energy and Carbon Reporting requirements can be found in the Strategic Report on page 41.

SUBSEQUENT EVENTS

Subsequent events are disclosed in note 24.

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 14.

POLITICAL DONATIONS

No political donations were made during the year.

DIRECTORS' INDEMNITY

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

The third-party indemnity provisions (which are qualifying third-party indemnities under the Companies Act 2006) are in place during the 2023 financial year and at the date of approving the Annual Report and Financial Statements.

Matters disclosed in strategic report	Location in the strategic report	Page
Description of our business model	Our business	14 - 19
Sustainable growth	Our commitment to sustainable growth	34 - 51
Research and development and innovation	Our commitment to sustainable growth	38
Carbon footprint and greenhouse gas emissions	Our commitment to sustainable growth	41 - 43
Corporate responsibility – colleagues and community	Our commitment to sustainable growth	44 - 49
Charitable donations	Our commitment to sustainable growth	48
Equality, diversity and inclusion	Our commitment to sustainable growth	49
Principal risks and uncertainties	Our principal risks	68 - 73

AUDITORS

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

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITORS

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 auditors are unaware.
- 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 auditors are 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
21 February 2024

Company registration number: 01991017

DIRECTOR'S RESPONSIBILITIES STATEMENT

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law).
Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company, and of the profit or loss of the Company for that period.
In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

DIRECTORS' CONFIRMATIONS

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

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

JAVIER ECHAVE
Director
21 February 2024

03

FINANCIAL STATEMENTS

Independent auditors' report to the members of Heathrow Airport Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of financial position as at 31 December 2023; the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Accounting policies and the Significant accounting judgements and estimates for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- We performed full scope audit procedures over the company.

Key audit matters

- Carrying value of Expansion asset in construction
- Valuation of derivative financial instruments - credit risk adjustment on super senior derivatives (inflation linked swaps and interest rate swaps)
- Valuation of investment properties - discount rate assumption in relation to commercial car parks

Materiality

- Overall materiality: £57m (2022: £45.5m) which reflects the consideration of various factors and benchmarks, together with engagement leader judgement, resulting in this quantum which represents 2.6% (2022: 2.9%) of adjusted EBITDA.
- Performance materiality: £42.8m (2022: £34.1m).

The scope of our audit

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

Key audit matters

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

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

Going concern basis of preparation, which was a key audit matter last year, is no longer included because of the extent of audit effort required to address the risk in relation to the going concern basis of preparation was less than that in the prior year given the business has demonstrated strong signs of recovery following the impact of COVID-19. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	**How our audit addressed the key audit matter**
Carrying value of Expansion asset in construction Refer to • the Audit Committee report on 'Key Judgement and Financial Reporting Matters', • the Accounting Policies, • the Significant accounting judgements and estimates; and • [note 6] in the financial statements. Assets in the course of construction include costs of £506m in respect of the Heathrow expansion ('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	We performed the following audit procedures in order to assess the risk of impairment in relation to the Expansion asset: • Assessed the design and implementation of key controls relating to Property, plant and equipment (including Assets in the course of construction); • We challenged management to provide evidence to demonstrate the technical feasibility, commercial viability and financeability (investability) of the project, reflecting the developments that have evolved since the onset of the pandemic. • We also challenged management to consider the current political and economic factors for and against Expansion and the impact of these on

capitalisation of Expansion related costs to commence. Costs which are directly associated with, and solely for the purposes of, seeking planning consent for the expansion of the airport including the delivery of new runway capacity through the Development Consent Order process are capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets. In accordance with IAS 16 - Property, plant and equipment, the cost of property, plant and equipment shall be recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. We focused on Expansion as there has been limited progress on the project more recently. As a result, there is a risk of impairment in the event that it is not probable that the project will generate future economic benefits.	what represents a significant infrastructure project in the UK, including the impact of COVID-19 and climate change, both to the aviation industry as a whole and to Heathrow's business plan for Expansion; • We challenged management by identifying both corroborative and contradictory evidence relating to the impairment risk for Expansion. This included assessing UK government policy, the view of the Civil Aviation Authority (CAA) and commitment from the Board and Shareholders to the project; • With the support of climate change experts, we evaluated the consistency of the available evidence with broader climate change considerations. In particular, we challenged management's use of climate scenarios and their impact on the probability of Expansion. This included evaluating the appropriateness of management's assumptions included within its own model which is consistent with the Heathrow Net Zero Plan, as described in the CFD section of the Annual Report as the base case for management's assessment; • We evaluated whether details regarding the Expansion are disclosed appropriately in the financial statements, including significant estimates and judgements to the extent necessary. Based on the above work performed, we have not identified any evidence of impairment triggering events, and therefore concur with management's view that the Expansion asset is not impaired at 31 December 2023.
Valuation of derivative financial instruments - credit risk adjustment on super senior derivatives (inflation linked swaps and interest rate swaps) Refer to • the Audit Committee report on 'Key Judgement and Financial Reporting Matters'; • the Accounting Policies; • Significant accounting judgements and estimates; and • note 14 in the financial statements. As at 31 December 2023, the company held derivative assets of £671m and derivative liabilities of £1,838m on the balance sheet. These are held to mitigate interest rate and foreign exchange risk arising on debts of £5.98bn. Included in these derivative balances were inflation linked swaps totalling £116m assets and £1,025m liabilities and interest rate swaps totalling £555m assets and £812m liabilities.	We, with the support of our Treasury specialists, performed the following audit procedures: • Assessed the design and implementation of key controls relating to the valuation of derivatives; • On a sample basis, performed independent valuation testing on the derivatives, including the credit risk adjustment at 31 December 2023; • Inspected the documentation supporting the super senior nature of interest rate swaps and inflation linked swaps where a higher recovery rate than the currency swaps is used in the valuation and evaluated whether the rate used is in line with the expected market rate; • Obtained third party confirmations from the financial institutions with which the company holds derivative instruments to

IFRS 9 "Financial Instruments" requires derivatives to be accounted for at fair value with movements recognised in profit or loss, unless designated in a hedge relationship. Due to the nature and complexity in the valuations involved, we identified a significant risk that the fair value of inflation linked and interest rate swaps ranking as super senior in the priority of payments may be misstated. The risk is mainly driven by the estimation of the valuation of credit risk of the swaps, in particular the assumed loss given default percentage applied to the valuation of these derivatives.	assess the completeness of the instruments; • Tested the estimation of the credit risk and quantum of the recovery rate applied to the super senior derivatives; and • Assessed management's derivative fair value disclosures in the financial statements, including the sensitivity analysis set out in notes to the financial statements. The results of our procedures above did not identify any material exceptions. We consider management's derivative fair value disclosures in the financial statements to be adequate.
Valuation of investment properties - discount rate assumption in relation to commercial car parks Refer to • the Audit Committee report on 'Key Judgement and Financial Reporting Matters'; • the Accounting Policies; • Significant accounting judgements and estimates; and • note 7 in the financial statements. The value of investment properties is £2,449m as at 31 December 2023 (2022: £2,230m). Investment properties include rental properties (residential and commercial), car parks, airport lounges and advertising sites. As per the company accounting policies, car parks are accounted for in accordance with IAS 40 "Investment Property". The car park portfolio represents 52% of the investment properties balance as at 31 December 2023. We identified a significant risk in relation to the valuation of commercial car parks, specifically the discount rate assumption as a result of ongoing market uncertainty.	We engaged our Real Estate Valuation experts to perform specific procedures to assist us in our evaluation of whether the assumptions and methodology used in valuing the investment properties (commercial car parks) were appropriate. We performed the following audit procedures: • Assessed the design and implementation of key controls relating to valuation of investment properties; • Held discussions with management's valuation experts and management to understand changes to the valuation methodology and year-on-year movements; • We challenged management on a number of assumptions, including the discount rate applied to the commercial car parks cash flow forecasts and tested the basis of those assumptions; • 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; and • Evaluated the adequacy of disclosures in the financial statements, including the sensitivity analysis set out in notes to the financial statements. The results of our procedures above did not identify any material exceptions. We consider the disclosures in the financial statements to be adequate.

How we tailored the audit scope

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

Our audit effort included tests of controls and substantive testing of material financial statements line items.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management and management's climate expert adopted to assess the extent of potential impact of climate risk on the financial statements and support the disclosure made within the "Climate Related Financial Disclosures (CFD)" section where the company has articulated the potential impact of climate change on its operations under different potential future scenarios. In addition, the company has disclosed in the 'Our Carbon Footprint section', the impact of its own operations on the environment and ways to reduce the company's impact as it continues to work towards its own Net Zero pathway to 2050.

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

- Reading external reporting issued by the Heathrow group of companies, including the Heathrow's Sustainability Report 2023 and Heathrow Net Zero Carbon Strategy report, reading the entity's website and making management aware of any internal inconsistencies in their climate reporting; and
- Challenging the assumptions used by management in determining their own climate risk scenario consistent with the Heathrow Net Zero Plan, particularly those in relation to SAF uptake as described in the CFD section of the Annual Report.

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

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

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

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

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

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

- Understanding management's model used in CFD scenario analysis and considering if the assumptions in the model are consistent with the assumptions used elsewhere in the financial statements; and
- Challenging the proportionality of the disclosures given in the narrative reporting within the other information to the impact disclosed within the financial statements.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2023.

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:

Overall company materiality	£57m (2022: £45.5m).
How we determined it	Overall materiality reflects the consideration of multiple factors and benchmarks, together with engagement leader judgement, resulting in this quantum which represents 2.6% (2022: 2.9%) of adjusted EBITDA.
Rationale for approach	We have determined the most appropriate level of materiality in the context of the nature of the organisation, which is both profit orientated and one with a significant infrastructure base requiring investment and maintenance. We considered the importance of various income statement and balance sheet metrics to the users of these financial statements, the implications of the materiality level on the scoping of financial statement lines items and the prior year materiality level. The overall materiality level represents approximately 2.6% (2022: 2.9%) of adjusted EBITDA, 1.6% (2022: 1.6%) of revenue and 0.3% (2022: 0.2%) of total gross assets.

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% (2022: 75%) of overall materiality, amounting to £42.8m (2022: £34.1m) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £2.8m (2022: £2.3m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental regulations, adherence to data protection requirements,, 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, Heathrow Airport's continued access to its CAA operating license, and UK corporation, VAT and employment tax. 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 judgements and estimates.. Audit procedures performed by the engagement team included:

- Discussions with management, including those outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the company's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading the Board minutes to identify any issues which could indicate non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in their significant accounting estimates in relation to the carrying value of Expansion assets in construction; valuation of derivative financial instruments, investment properties and retirement benefit obligations; impairment assessment of tangible and intangible assets including the recoverability of deferred tax assets in relation to losses (see related key audit matters above);
- Identifying and testing journal entries, in particular certain journal entries posted with unusual account combinations and journals crediting revenue; and
- 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 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
21 February 2024

Heathrow Airport Limited

Income statement for the year ended 31 December 2023

		Year ended 31 December 2023			Year ended 31 December 2022			
	Note	**Before certain re-measurements[1] £m**	**Certain re-measurements[2] £m**	**Total £m**	Before certain re-measurements[1] £m	Certain re-measurements[2] £m	Exceptional items[3] £m	Total £m
Revenue	*1*	**3,602**	**-**	**3,602**	2,838	-	-	2,838
Operating costs[4]	*2*	**(2,136)**	**209**	**(1,927)**	(1,971)	(69)	14	(2,026)
Operating profit/(loss)		**1,466**	**209**	**1,675**	867	(69)	14	812
Financing								
Finance income	*4*	**470**	**-**	**470**	354	-	-	354
Finance costs	*4*	**(1,451)**	**373**	**(1,078)**	(1,511)	929	-	(582)
Net finance costs		**(981)**	**373**	**(608)**	(1,157)	929	-	(228)
Profit/(loss) before tax		**485**	**582**	**1,067**	(290)	860	14	584
Taxation (charge)/credit	*5*	**(162)**	**(126)**	**(288)**	21	(203)	-	(182)
Change in tax rate	*5*	**-**	**-**	**-**	-	6	-	6
Taxation (charge)/credit		**(162)**	**(126)**	**(288)**	21	(197)	-	(176)
Profit/(loss) for the year[5]		**323**	**456**	**779**	(269)	663	14	408

(1) Amounts stated before certain re-measurements and exceptional items are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of 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.
(3) Exceptional items are one-off material or unusual non-recurring impairment reversals relating to previously raised impairment charges. There were no exceptional items in 2023.
(4) Included within operating costs is a £3 million credit (2022: £4 million) for the impairment of trade receivables.
(5) Attributable to owners of the parent.

The notes on pages 180 to 208 form part of these financial statements.

Heathrow Airport Limited

Statement of comprehensive income for the year ended 31 December 2023

	Note	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 £m
Profit for the year		**779**	408
Items that will not be subsequently reclassified to the income statement			
Actuarial gain/(loss) on pensions			
Gain/(loss) on plan assets[1]	*16*	**28**	(1,582)
(Increase)/decrease in scheme liabilities[1]	*16*	**(47)**	1,239
Other comprehensive expense for the year		**(19)**	(343)
Total comprehensive income for the year[2]		**760**	65

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

The notes on pages 180 to 208 form part of these financial statements.

Heathrow Airport Limited

Statement of financial position as at 31 December 2023

	Note	**31 December 2023** £m	31 December 2022 £m
Assets			
Non-current assets			
Property, plant and equipment	*6*	**10,385**	10,380
Investment properties	*7*	**2,449**	2,230
Intangible assets	*8*	**221**	193
Investment in subsidiary	*9*	**42**	42
Derivative financial instruments	*14*	**671**	777
Trade and other receivables	*11*	**4,108**	3,653
		17,876	17,275
Current assets			
Inventories	*10*	**17**	16
Derivative financial instruments	*14*	**-**	1
Trade and other receivables	*11*	**799**	598
Term deposits	*12*	**1,750**	1,548
Cash and cash equivalents	*12*	**189**	272
		2,755	2,435
Total assets		**20,631**	19,710
Liabilities			
Non-current liabilities			
Borrowings	*13*	**(14,878)**	(14,800)
Derivative financial instruments	*14*	**(1,811)**	(2,075)
Deferred income tax liabilities	*15*	**(457)**	(301)
Retirement benefit obligations	*16*	**(151)**	(126)
Provisions	*17*	**(1)**	(1)
Trade and other payables	*18*	**(2)**	(3)
		(17,300)	(17,306)
Current liabilities			
Borrowings	*13*	**(1,431)**	(1,329)
Derivative financial instruments	*14*	**(27)**	(22)
Provisions	*17*	**(2)**	(2)
Current income tax liabilities	*15*	**(121)**	(65)
Trade and other payables	*18*	**(601)**	(597)
		(2,182)	(2,015)
Total liabilities		**(19,482)**	(19,321)
Total assets less current liabilities		**18,449**	17,695
Net assets		**1,149**	389
Equity			
Capital and reserves			
Share capital	*19*	**647**	35
Revaluation reserve		**72**	(94)
Other reserves		**23**	23
Retained earnings		**407**	425
Total Equity		**1,149**	389

The notes on pages 180 to 208 form part of these financial statements.

These financial statements of Heathrow Airport Limited (Company registration number: 01991017) on pages 158 to 208 were approved by the Board of Directors and authorised for issue on 21 February 2024. They were signed on its behalf by:

Javier Echave
Director

Thomas Woldbye
Director

Statement of changes in equity for the year ended 31 December 2023

		Attributable to owners of the Company					
	Note	Share capital £m	Share premium £m	Capital contribution reserve £m	Revaluation reserves £m	Profit and loss reserve £m	Total £m
1 January 2022		35	-	-	(38)	304	301
Profit for the year		-	-	-	-	408	408
Other comprehensive income/(expense):							
Actuarial (loss)/gain on pension net of tax							
Loss on plan assets	*16*	-	-	-	-	(1,582)	(1,582)
Decrease in scheme liabilities	*16*	-	-	-	-	1,239	1,239
Total comprehensive expense		-	-	-	-	65	65
Other movements							
Transfer between reserves - investment property fair value movements[(1)]		-	-	-	(69)	69	-
Deferred tax on investment properties[(1)]		-	-	-	13	(13)	-
Total transfer revaluation reserve		-	-	-	(56)	56	23
Preference share redesignation[(2)]		-	-	23	-	-	-
31 December 2022		**35**	**-**	**23**	**(94)**	**425**	**389**
Profit for the year		-	-	-	-	**779**	**779**
Other comprehensive income/(expense):							
Actuarial gain/(loss) on pension net of tax							
Gain on plan assets	*16*	-	-	-	-	28	28
Increase in scheme liabilities	*16*	-	-	-	-	(47)	(47)
Total comprehensive income		**-**	**-**	**-**	**-**	**760**	**760**
Other movements							
Transfer between reserves - investment property fair value movements[(1)]		-	-	-	209	(209)	-
Deferred tax on investment properties[(1)]		-	-	-	(43)	43	-
Total transfer to revaluation reserve		**-**	**-**	**-**	**166**	**(166)**	**-**
Bonus issue of share capital[(3)]		612	-	-	-	(612)	-
31 December 2023		**647**	**-**	**23**	**72**	**407**	**1,149**

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

(2) Heathrow Airport Limited redesignated preference shares to ordinary shares in 2022, thus eliminating the preference share liability and redesignating to capital contributions. See note 19.

(3) Heathrow Airport Limited issued bonus shares from the profit and loss reserve on 24 February 2023 (£352 million) and 4 August 2023 (£260 million).

The notes on pages 180 to 208 form part of these financial statements.

Accounting policies for the year ended 31 December 2023

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

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

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

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

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

The Company has adopted the following standards that are relevant to these financial statements instead of those of FRS 102:
- IFRS 9 'Financial Instruments' in accordance with FRS 102.

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

Individual entity financial statements
The Company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of FGP Topco Limited and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2023. Its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. The financial statements present information about the Company as an individual entity only and not as a group.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions, therefore, the company has taken advantage of the following exemptions in its individual financial statements:
- The requirement to present a statement of cash flows and related notes.
- Financial instrument disclosures, including:
  - Categories of financial instruments.
  - Items of income, expenses, gains or losses relating to financial instruments.
  - Exposure to and management of financial risks.
- The requirement from disclosing related party transactions with entities that are wholly- owned subsidiaries of the FGP Topco Limited Group.
- From providing certain other disclosures regarding key management personnel.

Primary financial statements format
The primary financial statements are prepared in accordance with FRS 102, as it applies to the Company financial statements for the year ended 31 December 2023.

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.

Accounting policies for the year ended 31 December 2023 *continued*

Primary financial statements format *continued*
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 the 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 income statement contains the following items:
(i) fair value gains and losses on investment property revaluations and disposals,
(ii) derivative financial instruments,
(iii) the associated tax impacts of the items in (i) and (ii), and
(iv) the impact on deferred tax balances of known future changes in tax rates.

Exceptional items
The Company separately presents certain items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Company's result between periods. Exceptional items are one-off material or unusual non-recurring transactions and events.

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

Background
Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. The H7 price control period commenced on 1 January 2022 and during 2023 the CAA published their Final Decision of tariffs to cover the period from 1 January 2022 to 31 December 2026. The average H7 tariff of £23.06 in 2020 CPI real terms has been arrived at based on a set of assumptions which has led to a lower tariff than the Group believes is appropriate. However, the Final Decision and the results of the subsequent CMA appeal does remove previous uncertainty over cash flows for the H7 period related to tariffs. Please refer to page 18 for further information on the CAA final decision.

Through the course of 2023, the macro-economic environment has changed, and passengers are now impacted by high inflation and high interest rates. Passenger forecasts are fundamental to the going concern analysis, and the Directors have considered trends in future expected passenger numbers. During the year actuals recovered more quickly than expected, demonstrating strong passenger demand for travel. This gives us confidence in our future expected passenger numbers.

Heathrow Airport Limited is within the Heathrow (SP) Limited independent securitised group. The Directors have also considered the wider Heathrow Group, 'FGP Topco Limited', given the corporate structure, which involves cash generation across the Group and within the main operating company, Heathrow Airport Limited, including any covenants as described below in assessing the liquidity.

The wider Heathrow Group is bound by two types of debt covenants, tested on 31 December each year: the Regulatory Asset Ratio ("RAR"), a measure of the ratio of consolidated nominal net debt to the Regulatory Asset Base ("RAB"); and Interest Cover Ratios ("ICR"), a measure of operating cash flows to debt interest charge. These covenants exist at different levels within the Group's Class A and Class B debt. On that basis the Directors have assessed going concern for the period to December 2025.

Base case
In determining an appropriate base case, the Directors have considered the following:

- Forecast revenue and operating cash flows from the underlying operations, based on 2024 traffic forecasts of 81.4 million passengers.
- Forecast level of capital expenditure based on the CAA's H7 Final Decision.
- 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 and projected covenant requirements.
- The assumption of no future funding or access to capital markets.

Base case passenger forecast
There is inherent subjectivity in modelling future passenger numbers, nevertheless, passenger numbers have improved significantly in 2023 with total passengers for the year being 79.2 million (98% of 2019 levels). Despite a high-inflationary economic environment impacting the cost-of-living of passengers, demand has remained strong which signals that passengers are prioritising travel spend.

Accounting policies for the year ended 31 December 2023 *continued*

Going concern *continued*

Base case tariffs

The base case uses a 2024 nominal tariff of £26.74 and 2025 nominal tariff of £24.70 based on the tariff methodology set out in the CAA's Final Decision. Under the base case, the Group will meet all covenants associated with its financial arrangements.

Base case cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ("Heathrow SP") and Heathrow Finance plc ("Heathrow Finance"). Despite more challenging and volatile market conditions, Heathrow issued its debut sustainability-linked bond for €650 million, an £85 million private placement and a £140m bond guaranteed by a third party, raising total funding of £780 million during 2023. These issuances demonstrate the continued support and confidence in the Group's credit. As at 31 December 2023, the wider group has total liquidity available of £3.8 billion, comprising of £2.4 billion of cash held at FGP Topco group and a £1.4 billion undrawn revolving credit facility. Total debt maturity for the period to December 2025 is £1.9 billion at Heathrow SP and £0.6 billion at Heathrow Finance. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Severe but plausible downside case

The Directors are required to consider severe but plausible downside scenarios as part of the going concern assessment. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers – particularly in a highly inflationary economic environment impacting the disposable income of passengers – on cash flow generation, liquidity, and debt covenant compliance.

Under the Group's downside scenario, the Directors have considered passenger numbers at the low end of Heathrow's 2024 and 2025 passenger forecast to be a severe but plausible outcome. This considers the Group's views of plausible impacts caused by reduced passenger confidence and other economic factors. The low range of passengers represents a 4.3% reduction against the base case for 2024 and 4.5% for 2025. The tariff assumptions remain the same as in the base case since these are now fixed subject to inflation.

While deemed unlikely, the Directors have also assumed that the Group would be unable to access debt markets for any new funding should there be any risk of credit downgrade in this scenario.

Under the severe but plausible scenario, the Group has sufficient liquidity to meet all forecast cash flow needs until at least December 2025, with no breach of its covenants in the same period.

Reverse stress test

In forming their assessment, the Directors deemed it best practice to perform a reverse stress test which determines the earliest point of failure for the group, which would be a covenant breach in the next tested period in December 2024, where sufficient liquidity will remain intact. This involved modelling the breakeven level of passengers which would result in a covenant breach as at 31 December 2024. The model is based on a reduction in passenger numbers with no impact on costs. The Heathrow Finance plc ICR covenant is the most restrictive to operating performance, and for there to be a breach at this level, forecast passenger numbers would need to decrease by over 25.4% versus the base case for 2024, and 24.9% for 2025. An even greater passenger number decrease would be required for the Group to breach its RAR covenants. These passenger levels are below the low end of the Group's passenger forecast and are not considered plausible by the Directors.

Should circumstances arise that require Management to take corrective action, the majority of previously utilised tactical actions could be available, including cost reduction, deferral of investment or temporary reprofiling of interest payments.

Conclusion

Having had regard to both liquidity and debt covenants, and considering a severe but plausible downside and reverse stress testing, the Directors have concluded that there is sufficient liquidity available to meet the Group and Company's funding requirements for at least 12 months from the date of these financial statements and that it is accordingly appropriate to adopt a going concern basis for their preparation.

These financial statements 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 2023 *continued*

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 73. 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 Climate-Related Disclosures ('CFD') from page 74. In addition, the Group may need to invest significant amounts of capital in order to future-proof its operations against the impacts of climate change. These physical risks are explained fully within the CFD from page 74. Positive engagement with the CAA and airlines during 2022 supported the inclusion of £250 million of investment in carbon and sustainability improvements in our business plan for the current regulatory settlement period (2022 to 2026). This allows us to deliver the essential projects up to 2026 that will keep us on track to hit our net zero goals in the air and on the ground by 2030. The long-term forecast is the same plan that is used to support the future financial projections that also underpin matters including going concern, impairment, investment properties, and deferred tax assets. Further information on Heathrow's plan on achieving commitment to a global net zero goal for aviation is on page 38.

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 Climate-Related Disclosures and any impact they may have on these financial statements. Specifically:

- Property, plant and equipment (excluding assets in the course of construction): whether physical risks associated with climate change impact the useful economic lives of existing assets resulting in the need for accelerated depreciation. This could be as a result of assets that will be replaced as part of the Group's net zero plan to decarbonise during their current useful economic life; or could be as a result of the need to replace existing infrastructure in response to increasing temperatures and more unpredictable weather patterns ahead of previous expectations. Management has begun implementing parts of the energy strategy, including working on a design for a new heating and cooling solution for the airport which will replace gas boilers with zero carbon heating technologies. This will enable the turning off of gas for heating the airport by the mid-2030s. In addition over 50% of airport vehicles are electric with the target of a fully electric fleet by 2025. In the year, there has been no resultant change in the useful economic lives of the Group's assets, and no related accelerated depreciation or impairment. Refer to Note 7 for further information.
- Assets in the course of construction: specifically related to Expansion assets and whether the aim to get to net zero aviation impacts the probability of Expansion occurring, and therefore the recoverability of Expansion assets. Refer to the Capitalisation critical judgement on pages 158-160 for further information.
- Investment properties: whether future passenger demand will impact the valuation of Investment properties. Investment properties are initially recognised at cost and subsequently stated at fair value. The fair value of investment properties is based on expected revenue and revenues growth which is proportional to future passenger numbers and other linked factors. Based on Management's sensitivity analysis performed, no impairment or fair value impact has been recorded in these financial statements. Refer to Note 9 for further information.
- Deferred tax assets: whether future passenger demand impacts the recoverability of deferred tax assets. Deferred income tax assets are recognised in respect of all deductible timing differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. There are no unrecognised deferred income tax assets. The recognition of these deferred income tax assets is supported by a combination of the reversal of taxable timing differences and forecast future taxable income. A reduction in future passenger numbers may impact future taxable income. Based on the sensitivity analysis performed, the asset recognised is still fully recoverable under the Group's climate scenario adopted for CFD. Refer to Note 15 for further information.

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

Accounting policies for the year ended 31 December 2023 *continued*

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. When the outcome of a transaction involving the rendering of services can be estimated reliably, the Company recognises revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method). Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and consists primarily of:

Aeronautical income

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

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

Revenue from this stream is earned for 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.

Other Regulated Charges ('ORCs')

Revenue in relation to ORC's is derived from the recovery of certain costs incurred by the airport. It includes:

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

The Company typically satisfies revenue recognition criteria as the service is provided. Revenue is recognised on the day the service takes place, therefore at a point in time.

Car parking

Car parking charges are from the provision of parking services to customers, which include for Short Stay, Long Stay, Business parking and Storage. The Company considers the revenue recognition 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.

Other

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

Government Contributions

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

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Borrowing costs

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

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

Borrowing costs incurred during the period of suspension of construction are not considered to be a necessary cost of development and thus are recognised in the income statement in the period in which they are incurred.

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

Internally generated intangible assets

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

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

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

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

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

Purchased intangible assets (software costs)

Computer software costs principally relate to operating and financial software. These assets are amortised on a straight line basis over their useful lives of between four and fifteen years. The assets are assessed for impairment whenever there is indication that the intangible asset may be impaired.

Tangible fixed assets

Operational assets

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

Accounting policies for the year ended 31 December 2023 *continued*

Tangible fixed assets *continued*

Operational assets *continued*

Assets in the course of construction are stated at cost less any impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised (see "Borrowing Costs" policy), own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company. The Company reviews these projects on a regular basis to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

Heathrow expansion

Assets in the course of construction include qualifying costs in respect of Heathrow expansion following the Government decision in October 2016 in favour of Heathrow, and subsequent Board decision in October 2016 to apply for the Development Consent Order. These two events were considered by management to be a trigger point for the expansion project to proceed. Management subsequently announced publicly that the Group would apply for planning permission, in the belief that it is probable that expansion at Heathrow will be realised. As a result, the Group has started to capitalise eligible costs as 'assets in the course of construction'.

The costs which are directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity through the Development Consent Order process are capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets.

In assessing expansion costs, the Company has regard to principles of FRS 102 and considers October 2016 to be the point at which Expansion moved from the Research phase to the Development phase, and therefore development expenditure is capitalised in line with FRS 102, section 18. Expansion costs incurred during the research phase for the Airports Commission process and before Heathrow was named as the preferred location for new runway capacity in October 2016, were expensed in the period incurred.

Depreciation

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

Terminal complexes	*Useful 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

Accounting policies for the year ended 31 December 2023 *continued*

Tangible fixed assets *continued*
Depreciation *continued*

Rail	
Rolling stock	8 – 40 years
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. Alternatively, if the expenditure provides incremental future benefits so that it improves the earning capacity or extends the life of the non-current asset beyond its originally intended useful economic life, then it is treated as capital expenditure. This is usually the case with non-climate compliant assets where the Group seeks to modify appropriate assets where possible as it works towards its zero-carbon footprint commitment which is detailed in the strategic report. In certain circumstances, the asset life may fall outside of the boundaries disclosed above. Climate uncertainty does not have a material impact on the assessment of useful lives as the assets are considered to be fit for purpose over the assessed useful economic lives with reasonable repairs and maintenance. The key assumption in our plan which mitigates our carbon footprint is the adoption of sustainable aviation fuel ('SAF'), as explained in the CFD from page 74, which will use the existing asset infrastructure without material changes to existing assets. Consistent with the physical risk assessment in the CFD, there are no material physical risks associated with climate change due to physical location of the airport and its operations, and therefore at this stage there have been no resultant changes to the useful economic lives of assets.

Impairment of assets
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When performing this review, Heathrow is considered to form one cash generating unit (CGU) based on the interdependence of the airport cash flows and the functional organisational structure by which the airport is managed.

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

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

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

Accounting policies for the year ended 31 December 2023 *continued*

Leases continued

Company as a lessee

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

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

Company as a lessor

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

Investment in subsidiary

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

Inventories

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

Deferred income

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

Provisions

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

Restructuring

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

Home loss payment

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

Accounting policies for the year ended 31 December 2023 *continued*

Financial instruments

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

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

Classification and initial measurement of financial assets
All financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- Amortised cost.
- Fair value through profit and loss ('FVTPL').
- Fair value through other comprehensive income ('FVOCI').

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

Subsequent measurement of financial assets

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

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

Financial assets at fair value through other comprehensive income ('FVOCI')
The Company accounts for financial assets at FVOCI if the assets meet the following conditions:
- They are held under a business model whose objective it is "hold to collect" the associated cash flows and sell.
- 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.

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

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

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

Accounting policies for the year ended 31 December 2023 *continued*

Subsequent measurement of financial assets *continued*
Financial assets at fair value through other comprehensive income ('FVOCI') continued

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').
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

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

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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

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

The Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The Company assesses impairment of trade receivables on a collective basis where they possess shared credit risk characteristics, they have been grouped based on sector industry global default rates. Refer to Note 11 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The assessment of impairment for trade receivables can either be individually or collectively and is based on how an entity manages its credit risk. As the Company has a small number of receivables with large value and these receivables are managed on an account basis (i.e. individually) it is therefore not appropriate to base the impairment on a provision matrix as such a matrix would unlikely be in line with the expected credit loss of the individual receivable.

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

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

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

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all other liabilities.

Classification and measurement of financial liabilities
The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit and loss.

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

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

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

Borrowings from Company undertakings include the balance of the Borrower Loan Agreements ('BLAs') payable by the Company to Heathrow Funding Limited. Advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by Heathrow Funding Limited. The advances are carried at amortised cost with the interest expense recognised using the effective interest method. The nominal amount of the index-linked borrowings is accreted for the RPI component recognised within interest payable in the income statement.

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

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

Financial liabilities and reserves
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all of other liabilities.

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

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives include interest rate swaps, index-linked swaps and foreign exchange contracts.

Changes in their fair value of derivatives are recognised in profit and loss.

Accounting policies for the year ended 31 December 2023 *continued*

Classification and measurement of financial liabilities *continued*

Novation of financial instruments

Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Limited Group are transferred at fair value prevailing on that date.

Accounting for changes in credit risk

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

Shared Services Agreement ('SSA')

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

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

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

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

Employment costs

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

Retirement benefit obligations

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

Following a decision to re-assess the Company's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Company, should act as the sponsor (since 2015) in relation to these schemes. As a result, the Company 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.

Accounting policies for the year ended 31 December 2023 *continued*

Retirement benefit obligations *continued*

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

The defined benefit pension asset or liability in the statement of financial position comprises the total for each plan of the present value of the defined benefit plan obligation (using a discount rate based on high-quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net defined benefit pension asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in future contributions.

Current and deferred taxation

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

Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Group relief claimed/surrendered between UK companies is paid for at the applicable tax rate of 23.5% (2022: 19%) for the year.

Deferred income taxation is provided in full using the liability method on timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 timing differences from the unwind of the deferred income tax liabilities, against which these timing differences can be utilised and other future taxable profits. There are no unrecognised deferred income tax assets. The recognition of these deferred income tax assets is supported by a combination of the reversal of taxable timing differences and forecast future taxable income. Deferred tax assets and liabilities are not discounted. For deferred tax purposes, there is a rebuttable presumption that investment properties are on a 'held for sale' basis. The Directors consider that this presumption is not rebutted.

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

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

Share capital

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

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.

Accounting policies for the year ended 31 December 2023 *continued*

Foreign currency
The Company financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency applying the spot exchange rate using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related party disclosures
The Company has chosen to take exemption under the terms of FRS 102 from disclosing related party transactions with entities that are wholly- owned subsidiaries of the FGP Topco Limited Group. Under FRS 102 it is also exempt from providing certain other disclosures regarding key management personnel.

Cash flow statement
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in the UK.

The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2023. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2023 (intermediate parent entity and the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of accounting standard FRS 102 (1.12 (b) and (e)).

Significant accounting judgements and estimates for the year ended 31 December 2023

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

Critical judgements in applying the Company's accounting policies

Capitalisation

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

- The assessment of assets in the course of construction, including expansion costs where judgement is exercised to determine costs that are directly attributable to the assets under construction.
- Capitalised interest costs during the course of assets under construction, refer to the borrowing costs accounting policy above.
- When a project moves from the research phase (where costs must be expensed in the current period) to the development phase and hence may be capitalised as the future economic benefit of the project becomes probable and the principles of FRS 102 are considered and applied.

Assets in the course of construction for the expansion of Heathrow had a net book value of £506 million as at 31 December 2023. FRS 102 requires it to be probable that future economic benefits associated with an item will flow to the entity for an item to be capitalised. Management have considered the impact of the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement) and the 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.

Management's current long-term passenger modelling continues to support 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 and continue to engage with our local communities.

In order to obtain planning consent for the third runway, we will have to demonstrate that expanding Heathrow is compatible with the UK's climate change obligations, including the Paris Climate Agreement. The Government has made decarbonising aviation a central part of its green growth agenda, publishing its Jet Zero Strategy in July 2022, through accelerating the use of sustainable aviation fuel and new technology. Our scenario analysis that feeds into our long-term forecast is discussed in the CFD from page 74. We have an ambition to make 2019 the peak year for carbon emissions at Heathrow and a plan to get to net zero aviation by 2050. Please see page 38 for our net zero aviation section.

As at 31 December 2023, £506 million of Expansion-related assets in the course of construction, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission, including £16 million of allocated capitalised interest are recognised on the balance sheet. The ability to recognise the majority of these assets is supported by the view that Expansion remains probable, and any future change to this critical judgement would result in an impairment of these assets. Management have also considered whether there is any obsolescence associated with the continued programme delay. Any obsolescence is likely isolated to potential areas of exploratory groundwork rework, as well as any rework caused by subsequent changes in planning laws or regulations. In 2022 no impairment was recognised associated with future rework and using similar approach with updated judgements for circumstances prevailing in current year we reached same conclusion, and no impairment was identified.

Significant accounting judgements and estimates for the year ended 31 December 2023 *continued*

Critical judgements in applying the Company's accounting policies *continued*

Useful economic life ('UEL') and depreciation

Calculation of depreciation and the retention of assets on the fixed asset register requires management to make judgements regarding the useful economic lives of fixed assets. These judgements are based on Heathrow's experience of similar assets, engineering data, and industry standards.

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

Agent versus Principal

The presentation of certain costs including employment costs and pension costs which are a contractual obligation of LHR Airports Limited are presented as Operating costs of Heathrow Airport Limited in the financial statements based on an assessment of which entity is principal in relation to these transactions. This judgement is described in the accounting policies and is based on the balance of risks and rewards between group companies.

Lease classification

A lease contract is classified as an operating or a finance lease based on the substance of the contract and whether the Company or the lessor have the substantial risks and benefits incidental to the ownership of the leased asset.

The Company has a lease agreement with UK Power Networks Services Limited ('UKPNS' / 'Lessor') relating to the electricity distribution network at Heathrow. The lease expires in 2083. The Company has determined this arrangement to be an operating lease rather than a finance lease under section 20 of FRS 102. In this arrangement, the typical primary indicators of a finance lease under section 20 such as the lease term being for the major part of the economic life of the asset, the present value of the minimum lease payment amounts being substantially all of the fair value of the leased asset, appear to be met, largely due to the duration of the agreement.

The substance of the agreement however results in significant risks and rewards associated with the ownership of electrical distribution network remaining with UKPNS. Other features within the contract that are more relevant in this lease determination include that the obligation to operate, maintain, insure and repair rests with the lessor rather than the Company. Accordingly, management believe an operating lease classification to be appropriate.

Investment properties

Investment properties are fair valued by CBRE Limited, Chartered Surveyors. The valuations are prepared in consideration of FRS 102 and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations are carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) is capitalised using yields derived from market evidence. This market evidence also considers planned transactions and use of the property (for example the future expansion of Heathrow). Independent valuations are obtained for all investment properties.

Judgement is exercised in adjusting cash flows to reflect what a 'Reasonably Efficient Operator' would be able to achieve outside of the economies of scale achieved by Heathrow when operating a portfolio of car parks. These judgements are needed so that each car park can be valued on an individual basis and include judgements on the 'Fair Maintainable Turnover' that would be achievable and a determination on the allocation of business rates and operating cost inefficiencies.

Car parks classified as investment property

Management have exercised judgement in order to determine the appropriate classification of the car parks as investment properties rather than property, plant and equipment. Heathrow provides insignificant ancillary services as the day-to-day operation of the car parks is outsourced to a third-party provider. The third-party provider receives a portion of fixed fee and variable fee for the use of the car parks and Heathrow does not bear the associated risks and rewards of supplying the car park services to the passengers. The revenue received by the Company in respect to the car park revenue, represents rental income for the use of the space and service provided.

Significant accounting judgements and estimates for the year ended 31 December 2023 *continued*

Critical judgements in applying the Company's accounting policies *continued*

Deferred tax assets

Deferred income tax assets are recognised in respect of all deductible timing differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. Management judgement is required in the assessment of whether future taxable profits and reversible taxable timing differences support the recoverability of the deferred tax assets.

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

Key sources of estimation uncertainty

Investment properties

In applying Section 16 of FRS 102, investment properties have been estimated to be worth £2,449 million as at 31 December 2023. To assist in assessing the valuation of our investment properties Heathrow engages a professional valuation firm, CBRE Limited, Chartered Surveyors, that is regulated by the Royal Institution of Chartered Surveyors (RICS). Valuations are carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) is capitalised using yields derived from market evidence. Independent valuations are obtained for all investment properties.

Management have reviewed the main assumptions underlying the valuation of Investment properties and provide sensitivity analysis based on reasonable possible changes to relevant assumptions. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying amounts of investment properties within the next financial year have been assessed as those related to commercial Car Parks. Management have deemed the discount rates applied to future cashflows as the key input into the commercial Car Park valuations. Sensitivities have been run to analyse the impact of a reasonable change in discount rates as informed by discussions with CBRE. 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 Company 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 2023 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 2023.

Management have reviewed the main assumptions underlying the valuation of Retirement benefit obligations. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying value of the assets and liabilities relating to the scheme have been assessed as: a) Discount rate, b) Inflation rates, and c) Mortality/Life expectancy changes. Sensitivities have been run to analyse the impact of a reasonable change in these estimations informed by discussions with scheme actuaries ISIO and internal Heathrow experts. The results of the sensitivities are shown in Note 18 of the Annual Report and Financial Statements.

Notes to the Company financial statements for the year ended 31 December 2023

1 Revenue

The Company is organised into business units according to the nature of the services provided to Airport users. All revenue arises in the United Kingdom and is derived from Aeronautical and commercial operations within the Airport and its boundaries.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Revenue		
Aeronautical		
Movement charges	**934**	673
Parking charges	**90**	86
Passenger charges	**1,449**	1,120
Total aeronautical revenue	**2,473**	1,879
Retail		
Retail concessions	**257**	206
Catering	**83**	59
Other retail	**64**	54
Car parking	**170**	143
Other services	**124**	102
Total retail revenue	**698**	564
Other		
Other regulated charges	**240**	247
Property and other	**162**	146
Other rail income	**29**	2
Total other revenue	**431**	395
Total revenue	**3,602**	2,838
Adjusted EBITDA	**2,153**	1,596
Total adjusted EBITDA		
Reconciliation to statutory information:		
Depreciation and amortisation	**(687)**	(729)
Operating profit (before certain re-measurements and exceptional items)	**1,466**	867
Exceptional items	**-**	14
Fair value gain/(loss) on investment properties (certain re-measurements)	**209**	(69)
Operating profit	**1,675**	812
Finance income	**470**	354
Finance costs (after certain re-measurements)	**(1,078)**	(582)
Profit before tax	**1,067**	584

Revenue of £1,139 million (2022: £900 million) was derived from a single external customer and has been included within the aeronautical revenue.

2 Operating costs

Operating costs comprise:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Employment		
Wages and salaries	**356**	301
Social security costs	**39**	35
Pension costs	**31**	32
Other staff related costs	**29**	19
Own staff costs capitalised	**(31)**	(16)
	424	371
Operational[1]	**411**	343
Maintenance	**211**	176
Rates	**111**	114
Utilities	**164**	130
Other[2]	**128**	108
Operating costs before depreciation, amortisation and exceptional items	**1,449**	1,242
Depreciation and amortisation:		
Property, plant and equipment	**643**	688
Intangible assets	**44**	41
	687	729
Operating costs before certain re-measurement and exceptional items	**2,136**	1,971
Fair value (gain)/loss on investment properties (certain re-measurements)	**(209)**	69
Exceptional items (note 3)	**-**	(14)
Total operating costs[3]	**1,927**	2,026

(1) Operational costs consist of expenditure in relation to the standard operations of the airport.
(2) Other operating costs consist of primarily marketing costs and other general expenditure.
(3) Eligible R&D expenditure is identified retrospectively annually, following detailed review work. It is not therefore known with precision at the accounting date.

Rentals under operating leases

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Operating costs include:		
Land and buildings[1]	**15**	13
Other[2]	**33**	32
Total rentals under operating leases	**48**	45

(1) The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The amounts above are stated net of discounts.
(2) A significant portion of the operating rental costs relates to electricity supply equipment at the airport leased on agreement with UK Power Networks Services Limited ('UKPNS').

2 Operating costs *continued*

Auditors' remuneration

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

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Fees payable to the Company's auditors for the annual audit of the:		
Company's ultimate parent	**0.2**	0.2
Ultimate parent company's subsidiaries[1]	**1.2**	1.0
Total audit fees	**1.4**	1.2
Fees payable to the Company's auditors and their associates for other services specific to the Group		
Audit related assurance services	**0.3**	0.3
Other assurance services	**0.1**	0.2
Total non-audit fees	**0.4**	0.5
Total fees	**1.8**	1.7

(1) Fees payable to the Company's auditor for the audit of the Heathrow Airport Limited annual report and financial statements were £173,000 (2022: £173,000).

Non-audit fees predominantly relate to audit related assurance services provided in connection with the half-year review of Heathrow (SP) Limited.

Employee information

The Company has a monthly average of 7,318 employees (2022: 5,936) who are all employed to provide services to the operation of the airport. The directors note that although the employees remain legally employed by LHR Airports Limited, the Company makes all employment decisions. Consequently, employee numbers for those providing services to the operation of the airport are reported in the financial statement of the Company and not in the financial statements of LHR Airports Limited.

	Year ended 31 December 2023	Year ended 31 December 2022
	Number of employees	Number of employees
By activity		
Operations	**6,044**	4,892
Support services	**1,274**	1,044
Total	**7,318**	5,936

Directors' remuneration

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Aggregate emoluments[1]	**7,330**	5,343
Value of Company pension contributions	**88**	75
	7,418	5,418

(1) For the year ended 31 December 2023 salaries and benefits include salaries, allowances, Directors' fees, Company pension contributions, accrued bonuses and amounts payable under long-term incentive plans ('LTIP').

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

2 Operating costs *continued*

Directors' remuneration *continued*

Thomas Woldbye, John Holland-Kaye and Javier Echave were directors of a number of companies within the Heathrow Airport Holdings Limited Group, including LHR Airports Limited, during the year. Their remuneration for the year ended 31 December 2023 was disclosed in the financial statements of Heathrow Airport Holdings Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided and therefore their remuneration is not included in the numbers above.

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

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Highest paid director's remuneration		
Aggregate emoluments[1]	**1,526**	1,323

(1) Salaries and benefits include salaries, allowances, directors' fees, Company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

The highest paid director participates in the Heathrow Long-Term Incentive Plan designed to reward them for the success of Heathrow over a three-year period. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA and other carbon and operational targets over a three-year period.

	Year ended 31 December 2023	Year ended 31 December 2022
Number of directors who are members of a:		
Defined benefit scheme	**1**	1
Defined contribution scheme	**2**	2

No directors (2022: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Limited Group and no shares (2022: none) were received or became receivable under long-term incentive plans.

3 Exceptional items

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Impairment reversal	**-**	14
Gain on exceptional items after tax	**-**	14

Year ended 31 December 2023 exceptional items

There were no exceptional items in 2023.

Year ended 31 December 2022 exceptional items

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

4 Financing

(i) Net finance costs before certain re-measurements

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Finance income		
Interest receivable from group undertakings[1]	**385**	320
Net pension finance income	**-**	6
Interest on deposits	**85**	28
Total finance income	**470**	354
Finance costs		
Interest payable to group undertakings[2]	**(1,472)**	(1,507)
Interest on bank borrowings	**(65)**	(43)
Facility fees and other charges	**(10)**	(4)
Net pension finance costs	**(6)**	(1)
	(1,553)	(1,555)
Less: capitalised borrowing costs[3]	**102**	44
Total finance costs	**(1,451)**	(1,511)
Net finance costs before certain re-measurements	**(981)**	(1,157)

(1) These amounts relate primarily to interest accrued on balances due from Heathrow (SP) Limited (See note 13).

(2) These amounts relate mainly to interest due on the Borrower Loan Agreement ('BLA') advances and back-to-back derivatives not in hedge relationship with Heathrow Funding Limited.

(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 10.87% (2022: 5.72%) to expenditure incurred on such assets.

(ii) Fair value gain on financial instruments

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Foreign exchange contracts	**(1)**	3
Interest rate swaps	**83**	268
Index-linked swaps	**291**	658
Fair value gain on financial instruments	**373**	929
Net finance costs	**(608)**	(228)

5 Taxation (charge)/credit

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
UK corporation tax		
Current tax charge at 23.5% (2022: 19%)	**(120)**	(68)
Prior year (charge)/credit	**(6)**	2
Deferred tax		
Current year charge	**(167)**	(117)
Prior year credit	**5**	1
Change in tax rate	**-**	6
Taxation charge for the year	**(288)**	(176)

The tax charge on the Company's profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the company for the reasons set out in the following reconciliation:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Profit before tax	**1,067**	584
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 23.5% (2022: 19%)	**(251)**	(111)
Adjustments in respect of deferred income tax of previous years	**5**	1
Adjustments in respect of current income tax of previous years	**(6)**	2
Net non-deductible expenses	**(44)**	(40)
Change in tax rate	**(11)**	(36)
Difference in deferred tax movements for investment properties and financial instruments	**19**	8
Taxation charge for the year	**(288)**	(176)

The total tax charge recognised for the year ended 31 December 2023 was £288 million (2022: £176 million) based on a profit before tax for the year ended 31 December 2023 of £1,067 million (2022: £584 million).

The tax charge before certain re-measurements and exceptional items for the year ended 31 December 2023 was £162 million (2022: £21 million credit). Based on a profit before tax, certain re-measurements and exceptional items of £485 million (2022: £290 million loss), this results in an effective tax rate of 33.4% (2022: 7.2%). The tax charge for 2023 is significantly higher (2022: lower) than implied by the statutory rate of 23.5% (2022: 19.0%) primarily due to a large amount of depreciation which is unallowable for tax purposes. As the profit before tax and certain re-measurements for the year is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate for the year.

In addition, there was a £126 million tax charge (2022: £203 million) arising from fair value gains on derivatives and investment property revaluations of £582 million (2022: £860 million). The tax charge for 2022 also included a £6 million tax credit relating to the substantive enactment of the increase in the corporation tax rate from 19% to 25%, which took effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase was reflected in the deferred tax balances in the financial statements in 2022 and 2021.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax ('DTT') and a multinational top-up tax ('MTT'), effective for accounting periods starting on or after 31 December 2023. We have performed an assessment of the impact of the UK's DTT and MTT rules based on the Group's 2022 qualifying Country-by-Country Reporting ("CbCR") data. These measures constitute the UK's adoption of a qualifying Income Inclusion Rule and a Qualifying Domestic Minimum Top-up Tax (part of the Pillar II rules). Based on the 2022 CbCR data, no top-up tax is expected to arise due to the application of the transitional safe harbour provisions.

5 Taxation (charge)/credit *continued*

In addition, the non-UK entities are both within the UK Controlled Foreign Companies ("CFC") rules, i.e., both entities are non-exempt CFC's and a CFC tax charge on their equivalent UK taxable profits is already apportioned to the respective UK parent entities. As the economy begins to recover post-pandemic, the Group is expected to reach levels of pre-pandemic profitability, which may not be reflected in the 2022 CbCR results. The Group's 2023 financial statements show an ETR of 25.5% which preliminarily indicates that the impact of the Pillar II top-up tax should be minimal. We will continue to monitor the 2024 Pillar II impact as further information becomes available. The Group has applied the exemption under the FRS 102 'Income Tax' amendment for recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

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

6 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 2022		12,276	2,053	1,102	370	1,234	1,177	18,212
Additions		-	-	-	-	-	455	455
Borrowing costs capitalised	*4*	-	-	-	-	-	44	44
Disposals		(128)	(28)	(17)	(4)	(1)	-	(178)
Impairment charge		-	-	-	-	-	(4)	(4)
Impairment reversals	*3*	-	-	-	-	-	14	14
Capital write off		-	-	-	-	-	(16)	(16)
Transfer to intangible assets	*9*	-	-	-	-	-	(79)	(79)
Transfer to completed assets		44	60	26	2	9	(141)	-
31 December 2022		**12,192**	**2,085**	**1,111**	**368**	**1,242**	**1,450**	**18,448**
Additions		**-**	**-**	**-**	**-**	**-**	**632**	**632**
Borrowing costs capitalised	*4*	**-**	**-**	**-**	**-**	**-**	**102**	**102**
Disposals		**(402)**	**(27)**	**(73)**	**(3)**	**(35)**	**-**	**(540)**
Capital write off		**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Transfer to investment properties		**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Transfer to intangible assets	*9*	**-**	**-**	**-**	**-**	**-**	**(72)**	**(72)**
Transfer to completed assets		**215**	**139**	**46**	**11**	**10**	**(421)**	**-**
31 December 2023		**12,005**	**2,197**	**1,084**	**376**	**1,217**	**1,677**	**18,556**

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

6 Property, plant and equipment *continued*

	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
Accumulated depreciation								
1 January 2022		(5,617)	(610)	(659)	(127)	(545)	-	(7,558)
Depreciation charge	*2*	(502)	(57)	(85)	(14)	(30)	-	(688)
Disposals		128	28	17	4	1	-	178
31 December 2022		**(5,991)**	**(639)**	**(727)**	**(137)**	**(574)**	**-**	**(8,068)**
Depreciation charge	*2*	**(466)**	**(56)**	**(79)**	**(14)**	**(28)**	**-**	**(643)**
Disposals		**402**	**27**	**73**	**3**	**35**	**-**	**540**
31 December 2023		**(6,055)**	**(668)**	**(733)**	**(148)**	**(567)**	**-**	**(8,171)**
Net book value								
31 December 2023		**5,950**	**1,529**	**351**	**228**	**650**	**1,677**	**10,385**
31 December 2022		6,201	1,446	384	231	668	1,450	10,380

Other land and buildings

Other land and buildings are freehold.

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 £28 million (2022: £8 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 2023 did not include any significant accelerated depreciation. Depreciation in 2022 includes £20 million of accelerate depreciation on Terminal 2 pipework and various Terminal 5 fixtures and fittings.

Management considered any climate-related risks (as described in the CFD from page 74) and associated strategic capital projects that could impact the useful economic lives of Property, Plant and Equipment with no resultant change to useful economic lives.

Write-Offs, Impairment & Impairment reversals

As outlined on page 16, the regulatory environment that the Group operates in provides cash flow predictability, supporting investment. This limits the Group's exposure to impairment of assets in the course of construction to market conditions, though assets remain exposed to physical damage or obsolescence. In 2023, the Group wrote-off £7 million (2022: £16 million) relating to capital projects paused in previous years and will have since been discontinued. Group climate change risk was also considered in the assessment but did not result in a write-off or impairment charge specifically.

Borrowing costs capitalised

During the year ended 31 December 2023, borrowing costs of £102 million were capitalised (2022: £44 million). Capitalised borrowing costs were calculated by applying an average interest rate of 10.87% (2022: 5.72%) to expenditure incurred on qualifying assets. A tax deduction of £102 million (2022: £44 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Regulatory asset base ('RAB')

RAB at December 2023 was £19,804 million (2022: £19,182 million). The year on year increase is primarily driven by high levels of inflation as the RAB is directly linked to RPI.

7 Investment properties

	Car parks	Airport operations	Land and other	Total
	£m	£m	£m	£m
Valuation				
1 January 2022	1,132	529	636	2,297
Additions	-	-	2	2
Fair value movements[1]	(42)	(20)	(7)	(69)
31 December 2022	**1,090**	**509**	**631**	**2,230**
Additions	**-**	**-**	**3**	**3**
Transfers to property, plant and equipment	**-**	**-**	**7**	**7**
Fair value movements[1]	**194**	**(4)**	**19**	**209**
31 December 2023	**1,284**	**505**	**660**	**2,449**

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Valuation				
1 January 2022	-	1,358	939	2,297
Additions	-	2	-	2
Fair value movements	-	(36)	(33)	(69)
31 December 2022	**-**	**1,324**	**906**	**2,230**
Additions	**-**	**3**	**-**	**3**
Transfers to property, plant and equipment	**-**	**7**	**-**	**7**
Fair value movements	**-**	**18**	**191**	**209**
31 December 2023	**-**	**1,352**	**1,097**	**2,449**

(1) Fair value gains in 2023 are primarily due to the impact of improved trading performance across the portfolio, offset by the impact of higher discount rates. Fair value losses in 2022 were the result of large increases in discount rates offset by increases in land values.

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

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

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

Level 2 inputs are other quoted market prices directly or indirectly observable and involve a combination of inputs. The car parks, sites and non-operational land valuations, and residential 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% (2022: 92%) 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.

7 Investment properties *continued*

The investment property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 69% (2022: 67%) of the fair value of the investment property portfolio at 31 December 2023. 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 52% (2022: 49%) car parks, 21% (2022: 23%) airport operations and 27% (2022: 28%) land and others. Level 2 to 3 is split according to the following percentiles respectively: 55% (2022: 59%) and 45% (2022: 41%).

The sensitivity analysis below relates specifically to fair value movements in car parks within the level 3 valuation that comprises 89% (2022: 89%) of the total. Therefore, the valuation of level 3 has been determined based on reasonably possible changes to the discount rate, which has been identified as the key estimation uncertainty within the operation car park valuation. The methodology used in arriving at the incremental changes shown is consistent with that used for the valuation at the year end.

	(Decrease)/increase in asset valuation
Car parks – discount rate	**£m**
+0.5% pa	**(43)**
-0.5% pa	**46**

The property rental income earned by the Company from its investment property, amounted to £270 million (2022: £219 million). Direct operating expenses arising on the investment property, all of which generated rental income in the period, amounted to £14 million (2022: £13 million). The Company has entered into contracts for the maintenance of its investment property, which will give rise to an annual charge of less than £1 million (2022: less than £1 million).

Historical cost

The historical cost of investment properties and land held for development as at 31 December 2023 was £742 million (2022: £732 million).

8 Intangible assets

	Note	Software £m	Other intangibles £m	Total £m
Cost				
1 January 2022		367	-	367
Disposals		(39)	-	(39)
Transfers from property, plant and equipment	*6,7*	35	44	79
31 December 2022		**363**	**44**	**407**
Disposals		**(9)**	**-**	**(9)**
Transfers from property, plant and equipment	*6,7*	**22**	**50**	**72**
31 December 2023		**376**	**94**	**470**
Accumulated amortisation				
1 January 2022		(212)	-	(212)
Charge for the year	*2*	(41)	-	(41)
Disposals		39	-	39
31 December 2022		**(214)**	**-**	**(214)**
Charge for the year	*2*	**(40)**	**(4)**	**(44)**
Disposals		**9**	**-**	**9**
31 December 2023		**(245)**	**(4)**	**(249)**
Net book value				
31 December 2023		**131**	**90**	**221**
31 December 2022		149	44	193

Software costs

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

Other intangibles

Other intangibles relate to payments made to Crossrail in return for a service level commitment to operate services to Heathrow for a period of 15 years.

9 Investment in Subsidiary

	2023 £m	2022 £m
Cost at 1 January and 31 December	**42**	42

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 the UK, 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.

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

9 Investment in Subsidiary *continued*

The Investment in Subsidiary is assessed annually to determine if there is any indication that any of the investments might be impaired. At the 2023 year-end, it was identified that the financial performance of Heathrow Express Operating Company Limited (HEX) had improved against 2022 and met budget expectations. Management also performed an operational, industry, and market performance review of Heathrow Express Operating Company Limited and there was no indication of impairment on this investment. As a result, similar to previous year, no Value In Use calculation was carried out.

10 Inventories

	31 December 2023 £m	31 December 2022 £m
Consumables	**17**	16

The total amount of inventories consumed in the year was £1 million (2022: £1 million). There is no material difference between the statement of financial position value of inventories and their replacement cost.

11 Trade and other receivables

	31 December 2023 £m	31 December 2022 £m
Non-current		
Amounts owed by group undertakings – interest-bearing[1]	**3,972**	3,636
Less: provision for impairment	**(6)**	(9)
Prepaid debt fees[2]	**4**	5
Prepayments	**11**	12
Other receivables[3]	**127**	9
	4,108	3,653
Current		
Trade receivables	**149**	126
Accrued income[4]	**90**	91
Total trade receivables	**239**	217
Less: provision for impairment	**(13)**	(16)
Trade receivables after provision for impairment	**226**	201
Prepayments	**44**	29
Interest receivable from group undertakings	**430**	326
Other receivables	**99**	42
	799	598
Total trade and other receivables	**4,907**	4,251

(1) Amounts owed by group – interest-bearing represents loans receivable from Heathrow (SP) Limited of £3,964 million (2022: £3,685 million) and £785 million promissory notes (2022: £785 million) offset by a promissory note payable of £815 million (2022: £834 million) which have interest rates of 7.57% (2022: 7.57%), 11.29% (2022: 3.40%) and 11.29% (2022: 3.40%) respectively, as well as an amount due from LHR Airports of £38 million (2022: nil) with an interest rate of 7.09%.

(2) Prepaid debt fees largely relate to financing fees paid on facilities not yet drawn and are amortised over the term of the facility.

(3) Other receivables reflect amounts paid in December 2023 in relation to the acquisition of a property that was completed in January 2024.

(4) Accrued income is net of any amounts received in advance from customers.

11 Trade and other receivables *continued*

The fair value of trade and other receivables are not materially different from the carrying value. Trade receivables are non-interest-bearing and are generally on 14-day terms. No collateral is held as security.

As at 31 December 2023, trade receivables of £69 million (2022: £52 million) were fully performing. Trade receivables of £80 million (2022: £74 million) were past due. These relate to a number of independent customers for whom there is no recent history of default. Movement in the provision for impairment of trade receivables is as follows:

	£m
1 January 2022	20
Impairment of trade receivables	(4)
31 December 2022	**16**
Impairment of trade receivables	(3)
31 December 2023	**13**

As at 31 December 2023, trade receivables were considered for impairment under IFRS 9 resulting in a decrease in provision of £3 million (2022: £4 million decrease).

During the year ended 31 December 2023, no trade receivables (2022: £nil) were written off.

The individual impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included within 'other' operating costs in the income statement as shown in note 2. Amounts charged to the provision account are generally written off when there is no expectation of recovery, with additional impairment for forward looking ECL and probable default.

IFRS 9 also required the Company to recognise a provision for impairment against amounts owed by group undertakings for which £6 million (2022: nil) was provided. These amounts are expected to be fully recoverable.

The Company is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling.

12 Cash and cash equivalents and term deposits

	31 December 2023	31 December 2022
	£m	£m
Cash at bank and in hand	**23**	65
Short-term deposits	**166**	207
Cash and cash equivalents	**189**	272
Term deposits	**1,750**	1,548
Cash and cash equivalents, and term deposits	**1,939**	1,820

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates to their book value. Heathrow Airport Limited holds investments in term deposits, which have an original maturity of more than three months.

13 Borrowings

	31 December 2023 £m	31 December 2022 £m
Current		
Secured		
BLA advances from Heathrow Funding Limited	**877**	896
Total current (excluding interest payable)	**877**	896
Interest payable – external	**15**	10
Interest payable – owed to group undertakings	**539**	423
Total current	**1,431**	1,329
Non-current		
Secured		
BLA advances from Heathrow Funding Limited	**13,216**	13,223
Class A2 term loan due 2025	**100**	100
Class A3 term loan due 2029	**200**	200
Term notes due 2026 - 2052	**1,362**	1,277
Total non-current	**14,878**	14,800
Total borrowings	**16,309**	16,129

The table below analyses the contractual maturity of the Company's borrowings falling due after more than one year:

	31 December 2023 £m	31 December 2022 £m
One to two years	**944**	875
Two to five years	**2,674**	2,746
Over five years	**11,260**	11,179
	14,878	14,800

Borrowings from group undertakings

Heathrow Funding Limited, a fellow subsidiary company, raises funds from external sources through the issuance of external bonds and use of external derivatives. The proceeds raised are distributed to the Company under the terms of the BLAs.

Advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by Heathrow Funding Limited, taking into consideration certain of the related hedging instruments. Interest rate swaps, index-linked swaps and cross-currency swaps are entered into by Heathrow Funding Limited to hedge the SP Group's exposures. Interest rate and index linked derivatives are mainly passed through to the Company as back-to-back derivatives, or otherwise incorporated into the related BLAs. Cross-currency swaps are packaged with external non-sterling debt and passed through to the Company under the BLAs.

During the year, following new bonds issued by Heathrow Funding Limited, further advances were made to the Company for £691 million (2022: £195 million), net of transaction costs. In the same period, the Company made repayments of £751 million (2022: £732 million). The effective interest rate on the BLA advances varies between 0.01% and 7.39% (2022: 0.01% and 7.39%).

Facilities

All of the facilities are carried at amortised cost.

The Company had £1,386 million undrawn committed borrowing facilities available as at 31 December 2023 (2022: £1,386 million). In addition, as at 31 December 2023, there was an overdraft limit up to a maximum net overdraft balance of £10 million (2022: £10 million).

Following unanimous lender approval, the Group converted its existing Revolving Credit Facility ('RCF') and Working Capital Facility ('WCF') to a Sustainability-Linked Loan ('SLL'), which has three ESG KPIs. There is no impact or restrictions on the Groups' ability to drawdown on the RCF or WCF given it now has sustainability-linked ESG KPI targets, the only change is to the margins paid annually, dependent on the number of KPIs achieved. There is no planned drawdown on these facilities in the near future.

13 Borrowings *continued*

Securities and guarantees

The Company, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. The total value secured is £15,897 million (2022: £15,670 million), equal to the gross value of Heathrow (SP) Group debt.

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

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

14 Derivative financial instruments

31 December 2023	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts	**15**	**-**	**(1)**	**(1)**
Index-linked swaps	**100**	**-**	**(26)**	**(26)**
Total current	**115**	**-**	**(27)**	**(27)**
Non-current				
Interest rate swaps	**7,378**	**555**	**(812)**	**(257)**
Index-linked swaps	**5,301**	**116**	**(999)**	**(883)**
Total non-current	**12,679**	**671**	**(1,811)**	**(1,140)**
Total derivative financial instruments	**12,794**	**671**	**(1,838)**	**(1,167)**

31 December 2022	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	29	1	(1)	-
Index-linked swaps	100	-	(21)	(21)
Total current	129	1	(22)	(21)
Non-current				
Interest rate swaps	7,378	662	(1,009)	(347)
Index-linked swaps	5,401	115	(1,068)	(953)
Total non-current	12,779	777	(2,077)	(1,300)
Total derivative financial instruments	12,908	778	(2,099)	(1,321)

The Company has index-linked derivative financial instruments where changes in RPI are capitalised to the carrying value of the instrument over its life, with scheduled payments every 5 years. The nominal value of index-linked derivative financial instruments is £5,547 million (2022: £5,707 million), and cumulative accretion over the life of the instruments is £3,071 million (2022: £2,484 million). During the year, the Company paid scheduled accretion payments of £94 million (2022: £44 million) as well as electing to pay £483 million (2022: £490 million) of early cash repayments of its accrued accretion in advance of the schedule repayment dates, which has had the effect of reducing future accretion payments by £527 million (2022: £541 million). The accretion accrual over index linked swaps at 31 December 2023 is £807 million (2022: £726 million).

Derivative financial instruments at fair value

The Company enters into derivative transactions, principally interest rate swaps, index-linked swaps and foreign exchange contracts. The purpose of these transactions is to manage interest rate, inflation and currency risks arising from the Company's operations and sources of finance. The Company does not apply hedge accounting in relation to any of its derivative financial instruments.

Interest rate swaps

Interest rate swaps are maintained by the Group, and designated as cash flow hedges, where they qualify, against variability in interest cash flows on current and future floating or fixed 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.

Index-linked swaps

Index-linked swaps have been entered into in order to economically hedge debt instruments, RPI linked revenue and the Regulated Asset Base ('RAB').

Financial instruments at fair value by category

All of the Company's financial assets and financial liabilities that are held at fair value are classified as derivative financial instruments and are disclosed above. At 31 December 2023 and 2022, all fair value estimates on derivative financial instruments are included in level 2.

14 Derivative financial instruments *continued*

Treasury risk management

The Company's financial risk management objectives are aligned with Heathrow Airport Holdings Limited, which is the level at which financial risks for the Company are managed. The treasury policies of the Heathrow Airport Holdings Limited have been disclosed in the internal controls and risk management section of the Strategic report in its statutory Annual Report and Financial Statements.

Fair value estimation

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

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

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

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

15 Deferred income tax liabilities

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

	2023 £m	2022 £m
1 January 2023	**301**	305
Over provision in respect of prior periods	**(5)**	-
Charged to income statement	**167**	116
Credited to other comprehensive income	**(6)**	(114)
Credited to income statement – change in tax rate	**-**	(6)
31 December 2023	**457**	301

Analysis of the deferred tax balance is as follows:	2023 £m	2022 £m
Excess of capital allowances over depreciation	**266**	228
Retirement benefit obligations	**(37)**	(31)
Other timing differences	**(8)**	(4)
Financial instruments	**(109)**	(190)
Revaluation of investment property to fair value	**302**	258
Tax on rolled over gains	**12**	12
Revaluations of property, plant and equipment	**43**	43
Losses carried forward	**(12)**	(15)
Deferred income tax liability	**457**	301

Provision has been made for deferred taxation in accordance with FRS 102.

The Finance Act 2021 substantively enacted an increase in the 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 in 2022 and 2021.

The net deferred tax liability is expected to increase in 2024 by £66 million. This primarily relates to movements in accelerated capital allowances, carried forward losses and financial instruments.

Deferred tax assets have been recognised in respect of all deductible timing differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. There are no unrecognised deferred tax assets. UK tax losses and capital losses have no expiry date. The recognition of these deferred tax assets is supported by a combination of the reversal of taxable timing differences and forecast future taxable income up to 2042, the year the deferred tax assets are expected to unwind fully.

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

The Company has a strong earnings history, and its business fundamentals remain strong. Current year results demonstrate a strong post-COVID 19 recovery. The Company benefits from countercyclicality. The position as the UK's only hub airport ensures that Heathrow remains a resilient airport, maintaining the UK's critical trade and passenger connectivity.

16 Retirement benefit obligations

The Company has applied the requirements of the standard IAS 19 'Employee Benefits (Revised 2011)' ('IAS 19R') for the year ended 31 December 2023.

LHR Airports Limited, which is an indirect subsidiary of HAHL Group, is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post-Retirement Medical Benefits ('PRM') scheme. Following the decision of the directors in 2015 to re-assess the Company's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Company, should act as principal in relation to these schemes. As a result, the Company recognises retirement benefit obligations within its financial statements.

The Company's primary Defined Benefit pension scheme (the 'BAA Pension Scheme' or the 'Scheme') is now closed to new employees. As required by UK pension law, there is a Pension Trustee Board that, together with LHR Airports Limited, is responsible for governance of the Scheme. The employer's contributions are determined based on triennial valuations conducted on assumptions determined by the Trustee and agreed by LHR Airports Limited. The defined benefit obligation or surplus is calculated quarterly by independent actuaries.

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

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

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

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

Income statement - pension and other pension-related liabilities costs

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Employment costs:		
Defined contribution schemes	**21**	14
BAA Pension Scheme	**9**	20
Past service charge/(credit) (BAA Pension Scheme)	**1**	(2)
	31	32
Finance charge/(credit) - BAA Pension Scheme	**5**	(6)
Finance charge – Other pension and post-retirement liabilities	**1**	-
Total pension charge	**37**	26

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

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
BAA Pension Scheme loss	**(24)**	(464)
Unfunded schemes (loss)/gain	**(1)**	7
Actuarial loss recognised before tax	**(25)**	(457)
Tax credit on actuarial gain or loss	**6**	114
Actuarial loss recognised after tax	**(19)**	(343)

16 Retirement benefit obligations *continued*

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

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

For the year-ended 31 December 2023, a past service charge of £1 million (2022: £2 million credit) was recognised. 2022 comprised of a past service credit of £8 million in relation to calculation of deferred member revaluation and a past service cost of £6 million in relation to a temporary change to scheme rules which ensures the final pensionable salary of scheme members was not impacted by 2020 salary changes. The past service charge in 2023 was the result of an extension to the temporary rule change.

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

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

		31 December			
	2023	2022	2021	2020	2019
	£m	£m	£m	£m	£m
Fair value of plan assets	**2,782**	2,735	4,886	4,796	4,302
Benefit obligation	**(2,910)**	(2,839)	(4,543)	(4,784)	(4,269)
(Deficit)/surplus in BAA Pension Scheme	**(128)**	(104)	343	12	33
Unfunded pension obligations	**(22)**	(21)	(29)	(30)	(28)
Post-retirement medical benefits	**(1)**	(1)	(1)	(1)	(1)
Deficit in other pension related liabilities	**(23)**	(22)	(30)	(31)	(29)
Net (deficit)/surplus in pension schemes	**(151)**	(126)	313	(19)	4
Group share of net (deficit)/surplus in pension schemes	**(151)**	(126)	313	(19)	4

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

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

(a) BAA Pension Scheme

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

The value placed on the Scheme's obligations as at 31 December 2023 is based on the full actuarial valuation carried out at 30 September 2021. This has been updated at 31 December 2023 by ISIO Group Limited to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 December 2023 As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

16 Retirement benefit obligations *continued*
(a) BAA Pension Scheme *continued*

Analysis of movements in plan assets and defined benefit obligations

	2023 £m	2022 £m
Fair value of plan assets at 1 January	**2,735**	4,886
Income statement:		
Interest income on plan assets	**126**	88
Administration costs	**(3)**	(3)
Other comprehensive income:		
Re-measurement gain/(loss) (return on assets in excess of interest income on plan assets)	**37**	(2,109)
Cash flows:		
Employer contributions (including benefits paid and reimbursed)	**16**	29
Members' contributions	**1**	1
Benefits paid (by fund and Group)	**(130)**	(157)
Fair value of plan assets at 31 December	**2,782**	2,735
Defined benefit obligation at 1 January	**(2,839)**	(4,543)
Income statement:		
Current service cost	**(6)**	(17)
Past service cost	**(1)**	2
Interest cost	**(131)**	(81)
Other comprehensive income:		
Re-measurements of defined benefit obligation:		
Arising from changes in financial assumptions	**(70)**	1,835
Arising from changes in demographic assumptions	**42**	11
Experience loss	**(33)**	(201)
Cash flows:		
Members' contributions	**(1)**	(1)
Employer contributions	**(1)**	(1)
Benefits paid (by fund and Group)	**130**	157
Defined benefit obligation at 31 December	**(2,910)**	(2,839)

The net actuarial loss before tax of £24 million (2022: £464 million) for the BAA Pension Scheme resulted from an increase in obligations due to lower net discount rate of £70 million (2022: £1,835 million decrease), offset by an increase in assets of £37 million due to over performance relative to discount rates (2022: £2,109 million loss). In addition, there was a £42 million gain (2022: £11 million) attributable to updated demographic assumptions and a £33 million experience loss (2022: £201 million) when allowing for actual inflation.

The actuarial loss on change in financial assumptions is mainly attributable to an actuarial loss on liabilities resulting from a decrease in the net discount rate of 0.20% over the year, based on a discount rate assumption of 4.50% and an RPI inflation assumption of 3.30% which outstripped a gain on assets. The discount rate used has decreased from 4.70% in 2022 to 4.50% in 2023 and is derived from the yield on 'high quality corporate bonds' of duration consistent with liabilities of the scheme. The Company adopted a multi-agency approach to setting the discount rate, i.e. for a bond to be treated as high quality it must have a AA (or equivalent) from at least two of the major ratings agencies.

16 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

Analysis of fair value of plan assets

		31 December 2023			31 December 2022	
	Quoted(1)	**Unquoted**	**Total**	Quoted1	Unquoted	Total
Fair value of plan assets	**£m**	**£m**	**£m**	£m	£m	£m
Equity	**68**	**423**	**491**	57	324	381
Property	**-**	**-**	**-**	-	134	134
Bonds	**224**	**183**	**407**	135	198	333
Cash	**-**	**33**	**33**	-	305	305
LDI	**-**	**1,104**	**1,104**	-	852	852
Buy-in	**-**	**410**	**410**	-	430	430
Other(2)	**-**	**337**	**337**	-	300	300
Total fair value of plan assets	**292**	**2,490**	**2,782**	192	2,543	2,735

(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.

(2) Other assets include multi-strategy funds which include diverse holdings in a number of small markets.

At 31 December 2023, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,104 million (40% of the asset holding at 31 December 2023). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk. At 31 December 2022, the largest single category of investment was an LDI mandate, with value of £852 million (31% of the asset holding at 31 December 2022).

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 Company 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.

16 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

Analysis of financial assumptions

The financial assumptions used to calculate Scheme assets and liabilities under FRS 102 were:

	31 December 2023	31 December 2022
	%	%
Rate of increase in pensionable salaries	**1.90**	1.90
Increase to deferred benefits during deferment	**3.30**	3.30
Increase to pensions in payment:		
Open section	**3.05**	3.00
Closed section	**3.30**	3.40
Discount rate	**4.50**	4.70
Inflation assumption	**3.30**	3.40

The assumptions relating to longevity underlying the pension liabilities at the reporting date are in line with those adopted for the 2023 actuarial funding valuation, removing prudency, and are based on standard actuarial mortality tables with an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 65 year old male pensioner of 21.4 years (2022: 21.8 years) and 22.3 years (2022: 22.7 years) from age 65 for a 45 year old male non-pensioner.

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

As required under FRS102, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

The funding valuation is used to judge the amount of cash contributions the Company 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 2023, the assumptions have been updated from those detailed at the September 2021 triennial valuation to allow for actual realised inflation in 2023. The future inflation assumptions above are applied for future periods.

Analysis of future cashflows

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

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

The valuation also considered the cost of the benefits that will be built up over the remaining future lifetime of active members. The table below gives a breakdown of the future service cost at 30 September 2021 and the cost at 30 September 2018 for comparison. Active members pay contributions to the Scheme as a condition of membership.

Future service contributions over the future lifetime of active members whilst employed by the Group	**30 September 2021**	30 September 2018
	% of base salary including shift pay	% of base salary including shift pay
Cost of pension benefits	**29.0**	26.4
Add administration expenses (including the PPF levy)	**-**	2.6
Less members' contributions	**(3.4)**	(3.4)
Employer future service contribution rate	**25.6**	25.6

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

16 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

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%. Given the significant movements in discount rate observed in 2022 and the lower movement in 2023, 1.0% is considered to be reasonable and in line with market practice and the observed movements in assumptions.

	(Decrease)/increase in defined benefit obligation	
	Before tax	After tax
	£m	£m
Discount rate		
+1.0% discount rate	**(386)**	**(290)**
-1.0% discount rate	**484**	**363**
Inflation rate		
+0.50% inflation rate	**162**	**121**
-0.50% inflation rate	**(154)**	**(115)**
Mortality		
Increase in life expectancy by one year	**89**	**67**

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 2023 have been updated for the CMI 2021 model as noted above in the analysis of financial assumptions.

The total contributions by the Company to the defined benefit pension scheme in 2024 are expected to be £14 million. The levels of contributions are based on the current service costs and the expected cash flows of the defined benefit pension scheme. The Company estimates the present value of the duration of the Scheme liabilities on average fall due over 16 years (2022: 15 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 £22 million (2022: £21 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 (2022: £1 million) and this is also included in the statement of financial position. The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

17 Provisions

	Home loss payments	Other	Total
	£m	£m	£m
Current	2	-	2
Non-current	-	1	1
31 December 2022	**2**	**1**	**3**
Current	**2**	**-**	**2**
Non-current	**-**	**1**	**1**
31 December 2023	**2**	**1**	**3**

Home loss payments

Between 2005 and 2011, the Company entered into a number of agreements (Property Market Support Bonds) to buy residential properties in the previous third runway blight area. The purchase price for these properties included a deferred 10% payment ("deferred payment") which was to be settled in cash when planning consent was obtained. In October 2016, the Government announced its decision in favour of expansion at Heathrow and following board approval, a public statement was issued by the Company stating its intention to apply for planning consent. Legal advice was that the Company would be required to pay the deferred payment. As a result, in the year ended 31 December 2016, Heathrow created a provision for the deferred payment equal to the amount it expects to pay of £8 million.

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

Heathrow had continued to locate previous bond holders and as at year ended 31 December 2023, total amount utilised was £5 million paid resulting in a closing balance of £2 million. These payments were proactively paid as per the residential property agreement. In some instances, there were difficulties in tracing core dependants of the original property and securing robust documentation and hence payments had been slower than anticipated. Heathrow is no longer locating bond holders, however, carries a provision of £2 million, equal to the closing balance.

Other

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

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

18 Trade and other payables

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Non-current		
Other payables	**2**	3
	2	3
Current		
Deferred income	**17**	15
Trade payables[1]	**251**	211
Other tax and social security	**9**	8
Other payables	**56**	58
Capital payables	**123**	91
Amount owed to group undertakings – interest free	**145**	214
	601	597

(1) Trade payables are non-interest-bearing and are generally on 30-day terms.

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

19 Share capital

Called up, allotted and fully paid

	Number	**£m**
Ordinary shares of £1.00 each		
1 January 2022	**35,199,725**	**35**
Bonus issue share capital[1]	**611,851,370**	**612**
31 December 2023	**647,051,095**	**647**

(1) Heathrow Airport Limited issued bonus shares from the profit and loss reserve on 24 February 2023 (£352 million) and 4 August 2023 (£260 million).

20 Dividends paid

No dividends were paid during the year ended 31 December 2023 (2022: nil).

21 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Company as a lessee

Total future minimum rentals payable as at the year-end are as follows:

	31 December 2023		31 December 2022	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**4**	**33**	3	41
Within two to five years	**16**	**125**	8	113
After five years	**28**	**488**	12	458
	48	**646**	23	612

The Company leases various offices, warehouses, plant and machinery under non-cancellable operating lease agreements. A significant portion of the commitments classified as 'other' relate to the UK Power Networks Services Limited 'UKPNS' 'UKPNS Lease'. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UKPNS, as neither the Company nor UKPNS are able to split the base fee between a 'capital' and 'maintenance' charge. This is because the component parts within the distribution network will be replaced throughout the arrangement.

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

21 Commitments and contingent liabilities *continued*

Non-cancellable operating lease commitments – Company as a lessor
Total future minimum rentals receivable as at the year-end are as follows:

	31 December 2023 Land and buildings £m	31 December 2022 Land and buildings £m
Within one year	**75**	83
Within two to five years	**259**	213
After five years	**2,072**	1,841
	2,406	2,137

The Company uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically, in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months' notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand-alone premises, e.g., cargo sheds, longer leases of multiples of three years are used.

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Public car parks are covered by a single management contract.

Commitments for capital expenditure

Commitments for property, plant and equipment

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

	31 December 2023 £m	31 December 2022 £m
Contracted for, but not accrued:		
Asset management and compliance	**226**	128
Carbon and sustainability	**7**	1
Commercial proposition	**10**	3
Improve efficiency and service	**2**	3
Terminal 2 baggage system	**23**	4
Next generation security	**112**	17
	380	156

During 2023, the company entered into a financial commitment for the acquisition of property amounting to £127 million. As disclosed in note 11, the amount was paid in December 2023 and recognised in other receivables. The property transaction was completed on the 2nd of January 2024 at which point the property is reflected as an addition to Property, Plant and Equipment.

Contingent liabilities
As at 31 December 2023 the Company has external contingent liabilities, comprising letters of credit, performance guarantees and other items arising in the normal course of business amounting to £nil million at 31 December 2023 (2022: £2 million).

Notes to the Company financial statements for the year ended 31 December 2023 *continued*

22 Related party transactions

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are wholly-owned subsidiaries of the FGP Topco Limited Group.

During the year the Company entered into the following transactions with related parties that are not wholly owned subsidiaries of the FGP Topco Limited Group.

Purchase of goods and services from related parties	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 £m
Ferrovial Construction	**59**	72
	59	72

Sales to related parties	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 £m
Harrods International Limited[(1)]	**10**	8
Qatar Airways	**68**	55
	78	63

(1) The balance for Harrods International Limited for the prior year 31 December 2022 has been corrected to reflect actual sales..

Balances outstanding with related parties were as follows:

	31 December 2023		31 December 2022	
	Amounts owed by related parties	**Amounts owed to related parties**	Amounts owed by related parties	Amounts owed to related parties
	£m	**£m**	£m	£m
Ferrovial Construction	**-**	**6**	-	-
Qatar Airways	**6**	**-**	3	-
	6	**6**	3	-

The related parties above are related through ownership by the same parties. Related party transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arms-length basis.

23 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Company is Heathrow (AH) Limited, a company registered in the UK.

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

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2023, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc and Heathrow Airport Holdings Limited for the year ended 31 December 2023.

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

24 Subsequent events

There are no subsequent events to disclose.

Alternative Performance Measures (APMs) - Unaudited

The Company presents its results in accordance with United Kingdom Generally Accepted Accounting Practice ('UKGAAP') - Financial Reporting Standard 102 ('FRS 102'). Management also uses other financial measures not defined by FRS 102 as APMs (Alternative Performance Measures). Management relies on these APMs for decision-making and for evaluating the company's performance. Below we provide an explanation of each APM.

EBITDA

EBITDA is 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.

	2023	2022
	£m	£m
Profit for the year	**779**	408
Tax charge	**288**	176
Net finance cost	**608**	228
Operating profit	**1,675**	812
Depreciation and amortisation	**687**	729
EBITDA	**2,362**	1,541

Adjusted EBITDA

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

	2023	2022
	£m	£m
Profit for the year	**779**	408
Tax charge	**288**	176
Net finance cost	**608**	228
Operating profit	**1,675**	812
Depreciation and amortisation	**687**	729
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Adjusted EBITDA	**2,153**	1,596

Adjusted operating profit/(loss)

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

	2023	2022
	£m	£m
Operating profit(1)	**1,675**	812
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Adjusted operating profit	**1,466**	867

(1) Operating profit is presented on the Company Income statement, there is no mandatory requirement to disclose an operating profit line however it is a generally accepted profit measure.

Net finance costs before certain re-measurements

Net finance cost before certain re-measurements exclude fair value adjustments on financial instruments. Excluding fair value adjustments can be useful to investors and financial analysts when assessing the Company's underlying profitability, 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.

	2023	2022
	£m	£m
Finance income	**470**	354
Finance cost	**(1,078)**	(582)
Net finance cost including certain re-measurements	**(608)**	(228)
Fair value gain arising on re-measurement of financial instruments	**(373)**	(929)
Net finance cost before certain re-measurements	**(981)**	(1,157)

Adjusted profit/(loss) before tax

Adjusted profit/(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 Company's underlying profitability, because they can vary significantly from one year to the next.

	2023	2022
	£m	£m
Profit before tax	**1,067**	584
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Fair value gain arising on re-measurement of financial instruments	**(373)**	(929)
Adjusted profit/(loss) before tax	**485**	(290)

Adjusted profit/(loss) after tax

Adjusted profit/(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 Company's underlying profitability, because they can vary significantly from one year to the next.

	2023	2022
	£m	£m
Profit after tax	**779**	408
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Fair value gain arising on re-measurement of financial instruments	**(373)**	(929)
Tax charge on fair value (gain)/loss on investment properties and re-measurement of financial instruments	**126**	203
Change in tax rate	**-**	(6)
Adjusted profit/(loss) after tax	**323**	(269)

Regulatory Asset Base ('RAB')

The regulated asset base is a regulatory construct, based on predetermined principles not based on UK GAAP. 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.

	2023	2022
	£m	£m
Regulatory Asset Base ('RAB')	**19,804**	19,182

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	**2023**	2022
Total net debt to RAB	**0.747**	0.760
Senior net debt to RAB	**0.637**	0.649