

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

HEATHROW (SP) LIMITED ANNUAL REPORT AND ACCOUNTS

Our Purpose

To make every journey better

Our Vision

To give passengers
the best airport service in the world

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At a glance

- **Heathrow flies into the 2020s having landed nine consecutive years of growth** – Heathrow soared to the best year in its history welcoming a record 80.9 million passengers in 2019 (+1% vs 2018). The share of UK exports handled through Heathrow increased to 40%, strengthening our position as the UK's biggest port. Despite record performance, the case for a new runway at Heathrow was strengthened as new figures revealed Paris Charles de Gaulle is set to overtake Heathrow as Europe's largest airport within the next two years.
- **New investments and cutting-edge technology boost passenger experience** – Visitors to the UK have received a first-class welcome following Heathrow's investment of over £12 billion in private money to boost the experience – including building Terminal 2 and rolling out eGates, enhanced security scanners and a new digital tower. Skytrax crowned Heathrow's terminals as world's best six times in the last ten years with 82% of passengers rating Heathrow as "Excellent" or "Very Good"

At a glance

- **Healthy financial performance** – Heathrow remains in strong financial health: revenues climbed 3.4% to £3.1 billion on the back of increased demand to fly – supporting an additional £856 million of investment into the airport in 2019. Adjusted EBITDA rose 4.6% to £1.9 billion. Remaining competitive in the lead-up to expansion continues to be a priority: strict operating cost discipline while prioritising service, operational resilience and investment in growth has driven adjusted costs per passenger pre IFRS 16 up 5.0% to £14.85. Strong balance sheet and liquidity position extended to October 2021.
- **Expansion of Heathrow** – Heathrow intends to submit its expansion planning application towards the end of 2020 after unveiling detailed investment plans in 2019 that focused on securing lower airfares and more airline competition.
- **Heathrow eyes zero-carbon future after starting 2020s on carbon-neutral footing** – In January, Heathrow became carbon-neutral and started working towards operating zero-carbon airport infrastructure by the mid-2030s. It remains clear that unless expansion meets strict environmental targets, no additional capacity can or will be used.

Key financial indicators

Revenue

£3,070m

Revenue is an indicator of Heathrow's top-line growth and consists of aeronautical income, which is generated from fees charged directly to airlines for use of the airport's facilities, and non-aeronautical income from a variety of other sources. Passenger growth continued to contribute to increases in revenue which grew 3.4% in the year.

2018	2,970
2017	2,884
2016	2,807
2009	1,735

Adjusted EBITDA ¹

£1,921m

Adjusted EBITDA is an indicator of how Heathrow is delivering top-line revenue growth while remaining efficient and controlling operating costs. Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value gains and losses on investment properties. A focus on efficiency combined with revenue growth resulted in adjusted EBITDA growth of 4.6%.

2018	1,837
2017	1,760
2016	1,682
2009	783

Profit Before Tax

£546m

Profit before tax is a measure of total return generated before taxation. Profit before tax grew by 29.4% in the year. Profit before tax includes non-cash fair value movements on investment properties and financial instruments. These movements can cause significant fluctuations year-on-year.

2018	422
2017	579
2016	(213)
2009	n/a

Regulatory Asset Base ¹

£16,598m

The Regulatory Asset Base (RAB) is a regulatory construct, based on predetermined principles not based on IFRS. It represents the 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 and this in turn contributes to delivering shareholder value. Heathrow continues to invest in its operations and the RAB increased 2.5% in the year.

2018	16,200
2017	15,786
2016	15,237
2009	10,453

Consolidated nominal net debt ¹

£12,412m

Consolidated nominal net debt is a measure of indebtedness used by our financiers. Net debt was broadly flat.

2018	12,407
2017	12,372
2016	11,908
2009	n/a

¹ Alternative Performance Measures (APMs): the performance of the Group is assessed using a number of APMs. Management believe that APM's 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 on page [x] of the financial statements.

² Figures are not available for 2009 as Heathrow (SP) was trading as BAA (SP) Limited and the available information includes the trading results of other airports no longer owned. Results have only been provided where it was possible to separate the trading performance of Heathrow Airport.

Key operational indicators

Passengers

80.9m

The sum of all arriving and departing passengers.

To beat our plan, we aim to maximise the number of passengers we serve in a year while providing best possible service. We welcomed a record 80.9 million passengers travelling through the UK's only hub airport, up 1.0% on last year.

2018	80.1
2017	78.0
2016	75.7
2009	65.9

Passenger satisfaction

4.17

An independent passenger satisfaction survey that compares Heathrow's performance against 350 airports worldwide. Passengers rate their experience with a score out of 5.00, where one is 'poor' and five is 'excellent'.

2018	4.15
2017	4.16
2016	4.15
2009	3.78

Our vision is to transform customer service and give passengers the best airport service in the world. We achieved a record high level of passenger satisfaction in 2019.

Departure punctuality

78.5%

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

2018	77.6%
2017	80.2%
2016	78.8%
2009	77.0%

Departure punctuality improved to 78.5% in the current year, contributing to our plan to transform customer service.

Baggage connection

99.0%

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.

2018	98.8%
2017	99.0%
2016	98.6%
2009	98.1%

We put a great passenger experience at the heart of what we do; our operational ambition is 'every passenger, every bag, every time'. 99.0% of bags successfully connected in the current year.

Lost-time Injuries

0.34

We measure the number of lost-time injuries for every 100,000 hours worked in the last 12 months. In their working life a person works an average of 100,000 hours.

2019	0.34
2018	0.33
2017	0.48
2016	0.51
2009	n/a

We want everyone at Heathrow to go home safe and well to their loved ones at the end of each day. Lost-time from injuries was broadly stable in 2019 at 0.34.

Chairman's letter

Dear All,

As I write this letter, I feel a strong sense of pride. I think about how much we have achieved in 2019 and I want to say thank you, with deep gratitude to our nearly 7,000 colleagues and to our broader Team Heathrow - 76,000 colleagues strong today. Each and every one of you has been and will continue to be instrumental in making every passenger journey better.

2019 marks the end to an excellent decade of delivery for Heathrow. Over the decade, Heathrow has welcomed an additional 15 million annual passengers (23% up in an already congested airport) and opened Terminal 2, The Queen's Terminal which is now ranked by passengers as one of the best airport terminals in the world and the global benchmark for airport sustainable facilities, powered entirely by renewable energy. We served as Britain's front door as the United Kingdom welcomed the world's athletes and many excited fans ahead of the London 2012 Olympics, a very important milestone for me personally. Over the decade, we welcomed over 740 million passengers while becoming a much more efficient and resilient business. Our talented entrepreneurs and companies expanded their trade and thrived globally through the 16.6 million tonnes of cargo that travel through Heathrow, the biggest port in the United Kingdom. Since 2009, adjusted operating costs per passenger have decreased 24% in real terms, while at the same time, our ASQ service levels increased from 3.78 to 4.17. We were also able to more than double our adjusted EBITDA. Recognised as the best airport in Western Europe and amongst the top 10 globally, we are very proud of our transformation which was facilitated by over £12 billion of private investment and no cost to the taxpayer.

We continue delivering on our promises of being an exemplar employer and neighbour, with the airport leading the way on the London Living Wage accreditation and supporting many young apprentices from the local area in their training and career development through our Heathrow Academy. The decade concluded with Parliament making a landmark decision that would transform the airport's future, as MPs overwhelmingly voted in favour of expansion. We are confident that our expansion plan is sustainable, affordable, financeable and deliverable. After completing the consultation on our Draft Preferred Masterplan and issuing our Initial Business Plan, our plans to deliver the so desperately needed airport capacity are ready to go.

Climate change is at the forefront of our mind. We are committed to grow sustainably and I am proud that we started this new decade by becoming one of the first major airports to go carbon neutral. The solution to this complex and existential threat must come from the aviation industry itself, with well-informed authorities prepared to enforce action firmly if we don't deliver as a community at speed. We are determined that Heathrow will take a lead in reducing the emissions our sector makes, not just by continuing to transform our business, but by using our scale and influence to jointly define a new paradigm for the way our supply chain, airlines and airports around the world operate.

2020 opens a new decade and it is with excitement that I look forward to the opportunities ahead of us. By the end of this new decade of delivery, a third runway would have given Britain more hub capacity, making this country a winner and one of the best-connected in the world. An expanded Heathrow will create more much needed global connections between our country and the big economies of the 21st century – the United States of America, India and China - and unlock materially cheaper airfares for passengers by bringing more airline competition and choice. Our expansion will deliver significant economic benefits to all the U.K. including thousands of new skilled jobs at no cost to the taxpayer and will put all of Britain at the heart of global trade in a way that aligns with the Committee on Climate Change's net zero 2050 target.

2019 has been the best year ever for Heathrow and the service we have offered to our customers. The 2020s promise to be another exciting decade for Heathrow, so fasten your seat belts and prepare for another extraordinary journey with us.

LORD PAUL DEIGHTON
Chairman

History of Heathrow

For over 70 years we have been an integral part of the UK and its history. From a private airfield to one of the world's busiest international airports, a lot has changed in that time.

- 1944:** Construction of London Airport's runways begins.
- 1946:** London civil airport officially opens.
- 1955:** Her Majesty The Queen opens the Central Terminal Area and Control Tower.
- 1964:** The Beatles are mobbed at London Airport.
- 1966:** The British Airports Authority is created. London Airport is renamed 'Heathrow'.
- 1969:** Terminal 1 is opens.
- 1976:** Concorde makes its first passenger flight.
- 1986:** His Royal Highness Prince Charles and Princess Diana inaugurate Terminal 4.
- 1987:** The British Airports Authority is privatised as BAA plc.
- 1998:** The Heathrow Express rail service is launched.
- 1999:** The Terminal 5 public planning inquiry ends – the longest in UK history.
- 2007:** A new air-traffic control tower is operational – the tallest in the UK.
- 2008:** Terminal 5 is officially opened by Her Majesty The Queen in March; the first commercial A380 flight arrives at Heathrow.
- 2009:** Terminal 4 undergoes a major refurbishment to improve facilities.
- 2010:** Demolition work started on Terminal 2 to make way for its £1 billion replacement which opens on 4 June 2014.
- 2014:** The new Terminal 2: The Queen's Terminal opens for business on 4 June.
- 2015:** Terminal 1 closed.
- 2016:** Heathrow celebrates its 70th anniversary
- 2018:** MPs overwhelmingly vote in favour of Heathrow expansion
- 2019:** Heathrow welcomes a record 80.9m passengers

In 1930, British aero engineer and aircraft builder Richard Fairey paid the Vicar of Harmondsworth £15,000 for a 150-acre plot to build a private airport to assemble and test aircraft.

During World War II the government requisitioned land in and around the ancient agricultural village of Heath Row, including Fairey's Great West Aerodrome, to build RAF Heston, a base for long-range troop-carrying aircraft bound for the Far East. An RAF-type control tower was constructed and a 'Star of David' pattern of runways laid, the longest of which was 3,000 yards long and 100 yards wide.

Work demolishing Heath Row and clearing land for the runways started in 1944. However, by the time the war had ended the RAF no longer needed another aerodrome and it was officially handed over to the Air Ministry as London's new civil airport on 1 January 1946. The first aircraft to take off from Heathrow was a converted Lancaster bomber called Starlight that flew to Buenos Aires.

The early passenger terminals were ex-military marquees which formed a tented village along the Bath Road. To reach aircraft parked on the apron, passengers walked over wooden duckboards to protect their footwear from the muddy airfield. There was no heating in the marquees, which meant that during winter it could be bitterly cold. By the close of our first operational year, 63,000 passengers had travelled through London's new airport.

By 1951 passengers had risen to 796,000 and British architect Frederick Gibberd was appointed to design permanent buildings for the airport.

The focal point of Gibberd's plan was a 122ft-high control tower. There was also a passenger terminal called the Europa Building (later renamed Terminal 2) and an office block called the Queen's Building.

In 1969, Terminal 1 opened, by which time five million passengers a year were passing through the airport as the jet age arrived with Boeing 707s, VC10s and Tridents taking travellers from Heathrow to and from all parts of the world.

The 1970s marked the decade when the world became even smaller thanks to Concorde and wide-body jets such as the Boeing 747. As the decade drew to a close, 27 million passengers were using Heathrow annually. Demand for air travel also created the need for another terminal, Terminal 4, which opened for business in 1986.

By the time we celebrated our 60th anniversary in 2006 we had served around 1.4 billion passengers on over 14 million flights.

Terminal 5 opened in March 2008 and marked the beginning of an exciting new chapter for Heathrow. The brand-new Terminal 2: The Queen's Terminal opened for business on 4 June 2014.

Today **as recognised by Skytrax** we are the best airport in Western Europe and amongst top 10 globally. We are also one of the world's busiest international airports, and the UK's only hub airport, with over 80 million passengers travelling through the airport annually on services offered by 82 airlines travelling to over 200 destinations in over 80 countries.

We look forward to continuing our story, and continuing to connect all of the UK to global growth.

Our business

What we do

We are a service business. 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 by point-to-point airports which rely on local demand alone. We are the busiest passenger airport in Europe and the seventh busiest airport globally.

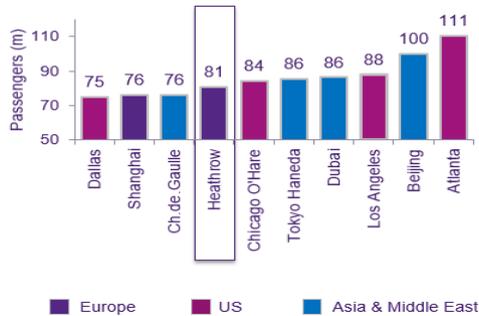


Figure 1 Top 10 busiest global airports 12 months to 31 December 2019

In 2019, we served a record 80.9 million passengers (2018: 80.1 million) completing our ninth consecutive year of passenger growth.

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 diversified range of major airlines. As well as earning aeronautical income from airlines, we also generate income from a variety of other sources. They include concession fees from retail operators, income from car-parks, advertising revenue, rents from property space and income from the provision of airport facilities and transportation services notably the Heathrow Express rail service.

We maintain a strong focus on operational performance, improving the passenger experience and investing in new and upgraded facilities. This focus and investment has resulted in Heathrow being named 'Best Airport in Western Europe' by Skytrax for the fifth consecutive year and 'World's Best Airport Shopping' for the tenth consecutive year in 2019.

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

As part of our Heathrow 2.0 plan for sustainable growth, we have recently published our new carbon plan showing how we will act over the next ten years, alongside airlines, manufacturers, governments and passengers. It includes clear goals that will help us to get our own emissions to net-zero, help the whole industry achieve a net-zero future and use our scale to help the wider economy decarbonise too.

Further details of our commitment to sustainable growth can be found on pages 30 to 47.

Investment and infrastructure

We have invested over £12 billion of private money at no cost to taxpayers transforming Heathrow's infrastructure since privatisation in 2006, including £856 million invested in 2019 (2018: £793 million).

To support and develop Heathrow's role as the UK's only hub airport, we intend to continue to enable the success of the major network airlines operating at Heathrow. We will do so by investing in further capacity, operational flexibility and resilience.

Improving the passenger experience is supported by ongoing investment in modern airport facilities and operating processes.

Terminals

Each of our four operational terminals is either new or recently refurbished. The busiest terminals are Terminals 2 and 5. Terminal 2, which opened in June 2014, served 18.9 million passengers in 2019 (2018: 18.5 million) and Terminal 5 served 32.8 million passengers in 2019 (2018: 32.8 million). Our total terminal capacity is currently estimated to be 85 million passengers per year.

We have a total of approximately 58,600 square metres of retail space served by over 450 retail outlets.

Runways

Our two parallel runways generally operate 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 normally swapped at around 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 2019 we operated at 99.1% (2018: 99.1%) of this cap.

Other infrastructure

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

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

Regulatory environment

We are subject to economic regulation by the Civil Aviation Authority (CAA), which is the independent aviation regulator in the UK, responsible for economic regulation, airspace policy, safety and consumer protection.

As the economic regulator for UK airports, the CAA assesses the market power of airports and if an airport passes the market power test(s) set out in the Civil Aviation Act 2012 (the 'Civil Aviation Act'), the airport is regulated by means of a licence. Heathrow has been determined, by the CAA, to hold significant market power and operates under a licence granted by the CAA in February 2014. The licence includes a price cap on Heathrow's airport charges.

The economic regulation is designed to allow the UK's regulated airports to generate revenues which are sufficient to finance their operating and capital expenditure requirements, and provide a regulated rate of return on their RAB. Each regulatory period usually lasts five years.

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

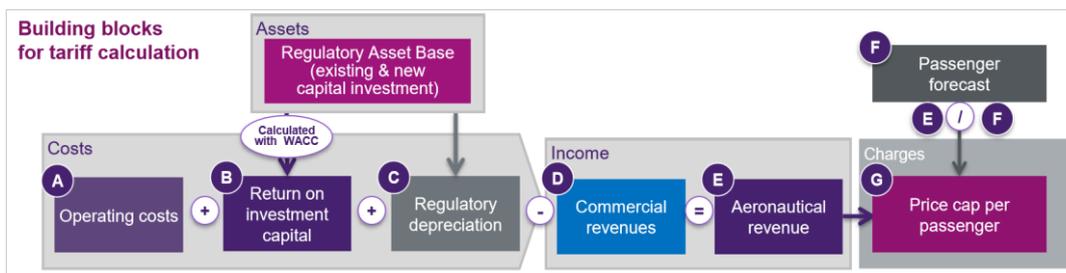
The building blocks of this 'Single Till' calculation are illustrated on the following page. The CAA first determines the regulated 'revenue requirement'. This is calculated as the sum of all our forecast costs (including operating expenditure, the required return using the cost of capital determined by the CAA on the forecast RAB and regulatory depreciation) less projected non-aeronautical revenue. The resulting revenue requirement is divided by forecast passenger numbers to produce the per passenger maximum allowable yield.

Our regulation is consistent with the economic regulation of other UK regulated industries (such as telecoms and the energy sector). This form of economic regulation is sometimes referred to as 'incentive regulation', in that Heathrow has an incentive to invest in better facilities for consumers and outperform the economic settlement by attracting more passengers, reducing operating costs or delivering higher commercial revenues. In the opposite case, we must absorb negative financial impact, with no adjustment for shortfalls in our passenger numbers or additional costs unless agreed with the CAA.

The regulatory environment provides cash flow predictability which supports external investment. Other key factors and protections include:

- The CAA has the statutory duty to set a return that secures financeability of our operations.
- Building blocks rebaseline at the start of every regulatory period which restricts long term risk exposure.
- Certainty and defined timing for recoverability of capital investments through the RAB.
- Pricing and asset value linked to inflation (RPI).

- Some protection against exceptional circumstances, for example changes in security regulation proposed by the government, changes in traffic mix, intra-period movements in property rates costs and capital investment risk in early phases of maturity.



2019 regulatory developments

In November, the CAA extended our economic licence until the end of 2021 to better align the next regulatory period (H7) with the overall expansion timetable and related statutory process. The period encompassing 2020 and 2021 is known as Interim H7 (iH7). A Commercial Airline Agreement defining the rebate on aeronautical charges that will be applicable during iH7 was reached with our airline community. This Agreement is reflected in the extended licence.

The agreement is built by overlaying fixed and volume-based rebates onto an extension of the existing RPI-1.5% price path and regulatory framework. The deal aims to incentivise airlines to maximise the use of current congested capacity ahead of new capacity being released.

Later in December, we submitted our Initial Business Plan (IBP) to the CAA. Expansion will unlock material reductions in airfares by injecting airline competition and choice. The plan is sustainable, affordable, financeable and deliverable and sets out our aspirations to offer what we understand consumers want while addressing the constraints from our other key stakeholders including our airline partners, local communities, colleagues and investors. Through engagement, we have identified two 'bookend' options contrasting cost and service. The first option prioritises savings by releasing additional capacity faster while the second option prioritises service with more emphasis in rail and service improvements. Through expansion, it is estimated that airfare savings could be between £21 to £142 per ticket depending on which option is chosen. Our plan also proposes an evolution to the regulatory framework by extending the price control period to 15 years. The longer horizon aims to balance predictability, risk and flexibility. We propose fixing the cost of equity for the duration of the price control while implementing periodic or performance-based resets for some building blocks such as passenger forecasts, operating expenses and commercial revenue to ensure creditors don't take additional risk. Feedback on our IBP is being collected from the Consumer Challenge Board, our airline partners and other key stakeholders at the time of this report. This feedback will be reflected in our Final Business Plan (FBP) due to be published in the second half of 2020.

Lastly, in January 2020 the CAA published a further consultation on the regulatory framework and financial issues related to H7. The CAA outlines the importance of setting price control arrangements that are consistent with our credit rating commitments and the importance of providing longer term regulatory certainty. It also signals that it will use the most up to date information from the Competition and Markets Authority regarding the National Air Traffic Services '(NATS)' En-route Limited (NERL)'s case when defining the WACC for H7. We continue engaging on these issues with the CAA and will respond to the consultation by 5 March 2020.

Summary of current regulatory and legal challenges to expansion

The publication of the CAA policy document in December 2019 on the early design and construction costs associated with expanding Heathrow – category B and early category C costs – represents further progress towards providing the regulatory certainty necessary to deliver an expanded Heathrow. We are concerned that some proposals do not represent a balanced set of incentives needed for investment. This will be reflected in our upcoming response to the consultation. A final decision and policy statement from the CAA is currently expected to be received in April or May 2020.

The Court of Appeal judgement is awaited on the current judicial review proceedings against the Secretary of State for Transport relating to the Government's decision to designate the Airports National Policy Statement. We remain of the view that a robust process has been applied to date, including the extensive evidence gathered by the independent Airports Commission, multiple rounds of public consultation and the overwhelming vote in Parliament.

If the appeal were to go against the Secretary of State for Transport, depending on the detail of the judgement, we will carefully consider our next course of action.

We have concluded expansion is probable and therefore it is appropriate to have recognised £450m of spend to date as an asset in the course of construction. Our current plan assumes that investment will continue growing in 2020 to c£1 billion as set out in the Investor Report published on 20 December 2019. If either the policy statement setting out the CAA's final decisions does not resolve our concerns, or the Airports National Policy Statement is set aside in the event of an adverse court judgement against the Secretary of State for Transport, a reassessment of the probability of expansion occurring would take place. If the likelihood of expansion occurring were no longer considered probable, the expansion related capital investment incurred as of date of reassessment would be required to be impaired and expensed to the

income statement. It should also be noted that we expect most of the assets will remain in the Regulatory Asset Base and continue to generate a return through the regulatory framework.

Generating revenue

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

Year ended 31 December	2019 £m	Year ended 31 December	2019 £m	Year ended 31 December	2019 £m
Aeronautical	1,831	Retail concessions	342	Other regulated charges	244
Retail	722	Catering	64	Heathrow Express	117
Other	517	Other retail	113	Property and other	156
Total revenue	3,070	Car parking	125	Total other revenue	517
		Other services	78		
		Total retail revenue	722		

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:

1. **Passenger charges**, based on the number of passengers per aircraft, and levied in respect of all departing passengers. There is no charge in respect of crew members. Charges vary by route area (European, domestic and rest-of-world) and type (transfer and non-transfer passengers).
2. **Landing charges**, levied for substantially all aircraft (with certain diplomatic and other flights being exempted). These are calculated in accordance with the certified maximum take-off weight, and adjusted, where applicable, in accordance with each aircraft's noise-rating, emissions and the time of day. Incentives are provided for quiet, and clean, aircraft. Airlines pay a penalty for movements in the core night period (23.30-06.00).
3. **Parking charges**, levied for each 15-minute slot after 30 and 90 minutes (narrow and wide-bodied aircraft respectively).

Retail and other income

The 'Single Till' means that higher retail and other income reduces per-passenger charges.

Retail and other income is generated from a variety of sources. These include:

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

Operating review



“Within two years, Charles de Gaulle will overtake Heathrow as the biggest airport in Europe. Heathrow’s new runway is ready to turn ‘global Britain’ into more than just a campaign slogan. It’s the key to the UK’s success after Brexit and will ensure we stay ahead of our European rivals. Expansion will be built within legally-binding environmental targets, creating lower airfares for passengers, connecting every corner of Britain to global growth and all at no cost to the taxpayer. It’s time to get on with it.”

John Holland-Kaye
Chief Executive Officer

Review of the year

2019 marked the end of a transformational decade for Heathrow as we welcomed a record 80.9 million passengers. Our traffic grew by nearly 25% in the past ten years and we significantly enhanced our passenger experience despite being severely capacity-constrained. Over £12 billion of private money made all of this possible. We invested in our colleagues, in better facilities, better processes and resilience. We have also taken a leading role in tackling one of the biggest challenges of our times: climate change. All of this paid off for our passengers and has earned us a place among the best-rated airports in the world today. This is a position of which we can be proud but cannot take for granted. To continue delivering our vision and give passengers the best airport service in the world, we need to expand Heathrow. The last decade was pivotal in that process: we won the parliamentary vote for Heathrow expansion, we are finalising our Masterplan and we continue working with our regulator, airline partners, local communities and investors to deliver this once-in-a-generation project.

Zooming into 2019, we continued progressing on all four strategic priorities underpinning our vision to give passengers the best airport service in the world: making Heathrow a great place to work, transforming customer service, beating the business plan and sustainable growth.

Our colleagues are fundamental to the success of our vision, which is why making Heathrow a great place to work and creating careers where people can fulfil their potential remains at the very heart of our strategy. In the last 12 months, 1,648 colleagues (2018: 755) attended training to advance their managerial skills and 210 colleagues (2018: 263) were promoted. 1,093 apprenticeships were created as we progressed on our goal to deliver 10,000 apprenticeships by 2030. Since becoming a fully accredited London Living Wage employer in 2017, we continued making progress with our direct supply-chain colleagues: 64 contracts out of 108 have now been updated, with a target full transition by the end of 2020. Overall, 74% of our colleagues (2018: 73%) agreed that Heathrow is a great place to work.

Investments to transform customer service delivered successful results too. We achieved an all-time high 4.17 out of 5.00 score in the global Airport Service Quality (ASQ) survey over 2019. We also achieved some of the highest levels of baggage connections and departures punctuality in our history. For the fifth year running, Heathrow was named 'Best Airport in Western Europe' as well as 'Best Airport for Shopping' for the tenth year in the most recent Skytrax World Airport Awards.

2019 was our 9th consecutive year of passenger growth as we welcomed 80.9 million passengers through the only hub airport in the world's largest aviation market, up 1.0% compared to 2018. We continued to beat the plan with £3.1 billion revenue, up 3.4% on last year. Operating costs remained tightly controlled whilst gearing up for growth. We continued to prioritise safety, security, service and resilience. This drove a 5.0% increase in adjusted operating costs per passenger pre IFRS 16. Our adjusted EBITDA rose 4.6% to £1.9 billion as a result. We raised £2.1 billion of debt financing globally in 2019 including a 15-year €650m bond issuance and our inaugural JPY transaction in December. Financing activities highlighted global investors' continued confidence in Heathrow's credit and kept cementing strong financial foundations ahead of expansion.

We contribute proactively in the delivery of the UN Sustainable Development Goals by 2030 and have achieved significant milestones to grow Heathrow sustainably today and in the future. We made further progress on decarbonising the airport's infrastructure: in January 2020 we became carbon-neutral. We are working towards operating zero-carbon airport infrastructure by the mid-2030s and have shared our plan to play our part in decarbonising the aviation industry over the coming decades. We were delighted to see our achievements recognised by edie's 'Mission Possible: Sustainable Business of the Year' award.

In late 2019, we published our Initial Business Plan, another significant milestone in expanding the airport. It outlines how we will invest to deliver expansion and unlock material reduction in airfares by introducing additional airline competition and choice over the next fifteen years. The plan is built on strongly-evidenced consumer views and includes two 'bookend' options which contrast service and cost by prioritising service or savings. We remain on track to submit our Development Consent Order 'DCO' application later in 2020. We continue engaging with our regulator and airline stakeholders to define the regulatory framework that will enable an expansion that is sustainable, affordable, financeable and deliverable.

Key management changes

Management changes this year include Fidel Lopez resigning as a Non-Executive Director of the Board on 30 January 2019. He was replaced by Maria Casero on the same date. RT Hon Ruth Kelly was appointed as a Non-Executive Director of the Board on 8 April 2019. Rachel Lomax stepped down from the HAHB Board on 23 February 2020, having served just over nine years on the Board.

Outlook

The outlook for our adjusted EBITDA performance in 2020 remains materially consistent with the forecast set out in the Investor Report published on 20 December 2019. We also forecast to maintain comfortable covenant headroom.

We are concerned about the global impact of the COVID-19 virus and are closely monitoring its impact on our business and stakeholders. At this point, and based on our central case, we do not expect this to have a material negative impact on our financial results. We will continue to monitor the situation carefully over the coming months and will provide updates in our quarterly results and semi-annual investor report.

2020 marks the beginning of an ambitious decade, with new private investment helping us to deliver a third runway which will give the UK's hub airport more capacity than our competitors in France or Germany, making us one of the best-connected airports in the world. Regular, direct flights to all the major cities in the US, India and China – the great economies of the 21st century – linked via the expanded hub at Heathrow to the regions and nations of the UK will ensure the whole of the country is at the heart of global trade. We look forward to delivering this economic growth that will help level up the UK in a way that unlocks an even better experience for passengers through cheaper tickets, and which, crucially, aligns with the Committee on Climate Change's net-zero 2050 target.

John Holland-Kaye
Chief Executive Officer
25 February 2020

Full page image

Our strategy

Our Strategic Framework

Heathrow's vision is to give passengers the best airport service in the world.

Who we are

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

What we want

Our Strategic Brief sets out our high-level aspirations for the future of Heathrow for all our strategic stakeholder groups. Our Client Brief translates the aspirations for our stakeholder groups held in the Strategic Brief into specific requirements.

How we are going to achieve it

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



In above chart change final circle to:
MASTERPLAN – MANAGEMENT (INTERNAL)
INITIAL/ FINAL BUSINESS PLAN (REGULATORY)

WHO WE ARE	VISION	To give passengers the best airport service in the world
	PURPOSE	Making every journey better
	PRIORITIES	
	VALUES	
WHAT WE WANT	STRATEGIC BRIEF	Our high-level aspirations for the future of Heathrow for all our strategic stakeholder groups
	CLIENT BRIEF	Translates the aspirations for our stakeholder groups held in the Strategic Brief into specific requirements
HOW WE ARE GOING TO ACHIEVE IT	MASTERPLAN	The long-term plan for the layout of an expanded Heathrow
	HEATHROW (INITIAL & FINAL) BUSINESS PLAN	The consumer outcomes, action and resources we need to deliver our strategy for the next regulatory period

In above chart change last box to:
MANAGEMENT AND INITIAL/FINAL BUSINESS PLAN

The consumer outcomes, action and resources we need to deliver our strategy including over the next regulatory period

Our priorities explained



To be a great place to work, Heathrow will help its people fulfil their potential and to work together to lead change across Heathrow with energy and pride.



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



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.



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

Our values explained



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



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



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



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



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



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

Our stakeholder groups

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

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



Our strategy

Performance against strategic priorities



We want Heathrow to be a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. In 2019 74% (2018: 73%) of colleagues agreed Heathrow is a great place to work through our Mini Pulse survey. We continued building strong leadership capability in 2019: 210 colleagues (2018: 263) were promoted and 1,648 colleagues (2018:755) attended training and development programmes.

We want everyone to go home safe and well to their loved ones. In 2019, our lost-time injuries metric was broadly stable at 0.34 (2018: 0.33). Targeted action plans are in place to drive down injuries such as sharps-related injuries and those sustained searching vehicles at control posts.

We have recently agreed a pay deal with our unions. The deal secures stable and fair terms and conditions for our colleagues until 2022 while remaining competitive.

We delivered...

- Awarded a £10m share in success pay-out to front line colleagues.
- Provided 1,648 colleagues with managerial skills training.
- Continued progress on moving our direct supply chain to London Living Wage.
- Set up the Colleague Engagement Forum, empowering colleagues across the business to help make Heathrow a great place to work.
- Awarded Disability Confident Leader status.
- Created a cancer support network.

...and we will do more

- Transition 100% of suppliers to London Living Wage.
- Invest in our future workforce through apprenticeships.

Performance indicators

Lost-time Injuries ¹

2019 0.34
2018 0.33
2017 0.48

Colleague engagement ¹

2019 74%
2018 73%
2017 74%

¹ Number of lost-time injuries for every 100,000 hours worked (Lost-time injuries), mini-Pulse colleague survey results (Colleague engagement).

Our strategy

Performance against strategic priorities (continued)



We continue to deliver strong levels of service across our passengers' journey. Our service standards remain high, despite passenger growth putting pressure on some key processes such as check-in, security, immigration, and baggage.

In 2019, we achieved a record ASQ rating of 4.17 out of 5.00 (2018: 4.15) compared to 3.84 out of 5.00 in 2010. In addition, 82% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2018: 82%). These scores illustrate not only the strength and resilience of our operations but also the benefits of our continued investments. For instance, passengers are enjoying upgraded Wi-Fi facilities and a transformed immigration experience as a result of newly installed e-Gates. Closure of the cargo tunnel caused connections satisfaction to decline to 4.14 out of 5.00 (2018: 4.16).

We delivered...

- Received Skytrax award for the 'Best Airport in Western Europe' and 'Best terminal in the world'.
- Installed anti-drone systems.
- Upgraded the airport to superfast WiFi.
- Installed new immigration e-gates.
- Launched new routes increasing domestic connectivity (eg Newquay, Guernsey, Isle of Man).
- First full year of our Service Signatures programme which seeks to improve customer service.

...and we will do more

- Roll-out of end-to-end biometrics.
- Wider roll-out of advanced CT security scanners.

Performance indicators

Passenger satisfaction (ASQ) ¹

2019	4.17
2018	4.15
2017	4.16

Baggage connection ¹

2019	99.0%
2018	98.8%
2017	99.0%

Departure punctuality ¹

2019	78.5%
2018	77.6%
2017	80.2%

Connections satisfaction (QSM) ¹

2019	4.14
2018	4.16
2017	4.16

Security queuing ¹

2019	96.3%
2018	96.8%
2017	97.3%

¹ Airport service quality (ASQ); percentage of flights departing within 15 minutes of schedule (Departure punctuality); percentage of passengers passing through central security within five-minute period (Security queuing); percentage of connecting bags traveling with the passenger (Baggage connection); quality of service monitor (QSM).

Our strategy

Performance against strategic priorities (continued)



New intercontinental routes

New routes were announced to North America by British Airways: Pittsburgh and Charleston. British Airways also announced new routes to Kansai, Dammam and Valencia. We also had new routes announced to Bali from Garuda Indonesia and Sialkot from Pakistan International Airline.

Record passenger traffic

During 2019, we welcomed 80.9 million passengers, an increase of 1.0% (2018: 80.1 million) and our ninth consecutive year of record passenger traffic. Aircraft continue to fly fuller, with load factors increasing to the highest we have ever seen at 80.0% (2018: 79.4%). Nevertheless one in five seats remain empty, which provides a significant growth opportunity prior to expansion. The average number of seats per passenger aircraft also increased to 213.7 (2018: 213.4) driven by aircraft upgrades on European and Middle Eastern routes throughout the year.

Intercontinental traffic grew by 2.2%. Intercontinental growth continues to be driven by North America, through increased load factors and frequencies, additional services and new routes such as Pittsburgh and Charleston. Africa traffic also grew strongly due to additional services to Marrakesh, Seychelles, Durban and Johannesburg. Middle East traffic increased due to larger aircraft and increased load factors. Asia Pacific traffic declined due to Jet ceasing operations early in the year. Short-haul traffic declined slightly by 0.3% driven by European traffic with a number of carriers reducing services. Domestic traffic grew 0.9% with new routes to Newquay, Guernsey and Isle of Man.

Our cargo volumes declined 6.6% compared to 2018 reflecting the general weakness in the global market in 2019. Our cargo operation reached capacity in 2018 and we do not expect volumes to increase materially until the capacity constraints are resolved by expanding Heathrow.

Passengers (millions)	2018	2019	Var. %
UK	4.8	4.8	0.9
Europe	33.3	33.2	(0.5)
North America	18.1	18.8	4.1
Asia Pacific	11.5	11.4	(1.1)
Middle East	7.7	7.8	1.2
Africa	3.3	3.5	5.3
Latin America	1.4	1.4	2.3
Total passengers⁽¹⁾	80.1	80.9	1.0

¹ Calculated using unrounded passenger figures.

Key traffic performance indicators	2018	2019	Var. %
Passenger ATM ⁽²⁾	472,744	473,233	0.1
Load factors (%) ⁽²⁾	79.4	80.0	0.7
Seats per ATM	213.4	213.7	0.2
Cargo tonnage ('000)	1,700	1,587	(6.6)

² 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.

We delivered...

- Agreed commercial airline deal which incentivises load factor.
- Grew passengers numbers to 80.9 million.
- Submitted our Initial Business Plan to CAA which covers a 15 year price control period.
- Re-launched Heathrow.com and a new digital led shopping experience.

Performance indicators³

Adjusted EBITDA £m

2019 1,921m
2018 1,837m
2017 1,760m

...and we will do more

- Submit our Final Business Plan.
- Prepare the business for growth referred to as 'Project Magenta'.
- Seek further cost efficiencies and benefit from the economies of scale which come from growth.

³ further analysis can be found in the Financial Review on page 51

Our strategy

Performance against strategic priorities (continued)



Heathrow 2.0 is our sustainability strategy. It represents a step-change for our business and captures the momentum of an industry-wide shift towards a sustainable future for aviation. Heathrow 2.0 and performance indicators for sustainable growth are discussed in detail in the following section on pages 30 to 47.

We delivered...

- Launched Way2Go a new initiative to cut colleague car use.
- Became the first airport to be a certified sustainable fish airport.
- Added new bus and coach routes.
- Engaged in statutory Masterplan and Airspace Change consultations.
- Achieved carbon-neutral airport infrastructure.

...and we will do more

- World's first airport Ultra Low Emission Zone plans.
- 2019 Sustainability Report to be published.
- Investment in UK natural climate solutions.
- DCO submission.



Our commitment to sustainable growth

Heathrow expansion will connect all of Britain to global growth, putting it at the heart of the global economy for generations to come. But this cannot be achieved at any cost. We need to grow sustainably - delivering the global connections that Britain needs while having a positive impact on local communities and helping to decarbonise the aviation industry. This is what our customers and colleagues expect.

Heathrow 2.0 is our plan for sustainable growth. It sets out how we will improve life for colleagues and communities, contribute to a thriving economy, and help to tackle global challenges including climate change. It supports the ambitions set out in our Initial Business Plan and will help us meet the expectations of our stakeholders, maintain support for our expansion and retain our licence to operate while reducing environmental and social risks to our business.

Heathrow 2.0 strategy overview

Our plan has four pillars, underpinned by 12 objectives and a range of goals and indicators. It covers our own business as well as our role in driving change across the wider industry. It shows how we aim to go beyond mitigation and deliver positive impacts that enable us and those around us to thrive.

Sustainability Report

In this report we have included 2019 progress against a selection of our 10 flagship goals (the key targets and aspirations from Heathrow 2.0). Our full report on progress and challenges across all 10 flagship goals and 12 objectives of Heathrow 2.0 will be published later in 2020. Our Sustainability Reports are available at www.heathrow.com.

Sustainability Culture

We have embedded sustainability into our culture through a Leading Sustainable Growth programme for managers and through our governance structures to drive progress on our targets. We are also integrating sustainability into the management of each department to help make it part of our culture across Heathrow. Key aspects include:

- **HAHL Board¹ of Directors:** Our Board receives monthly written updates on sustainability performance and risks, and in addition discusses proposed new targets and plans. The Board also has a dedicated sub-committee which discusses sustainability issues quarterly: the Sustainability and Operational Risk Committee.
- **Executive team:** Our Chief Executive and the Executive leadership team provide strategic direction for the delivery of Heathrow 2.0 through their functions. The Executive team reviews progress against our flagship goals monthly.
- **Our Sustainability Leadership Team:** Ensures that Heathrow 2.0 is embedded and implemented across the business. Its members are senior departmental leaders.
- **Functional leadership:** Each Heathrow function has a senior sustainability lead, selected from the leadership team and accountable for delivery of the department's annual sustainability improvement plan.

Sustainable Development Goals

The United Nations' Sustainable Development Goals (SDGs) were launched in 2015. They are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. To show how our commitments within Heathrow 2.0 support the 17 goals, we have summarised which goals apply to each of the four pillars within this report.

[Awards] [Chaos to add Logo of Edie award]

In February we were delighted to receive edie's 2019 Mission Possible: Sustainable Business of the Year Award in recognition of our Heathrow 2.0 efforts so far. We were also shortlisted as a finalist for the Business in the Community Responsible Business of the Year 2019 award which recognises businesses taking pioneering steps in sustainability.

¹ The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 78.



HEATHROW 2.0: 2019 ACHIEVEMENTS

A great place to work	A great place to live
<ul style="list-style-type: none"> • There were 1093 apprenticeships starting in 2019 (exceeding our target of 400). 175 were facilitated through the Heathrow Academy. • Increased the percentage of women in senior management from 33% to 35% and increased the percentage of colleagues from black, Asian and minority ethnic (BAME) backgrounds in senior management from 15% to 17%. • Raised awareness with colleagues and local schools to celebrate the gifts, talents and employability of people with neuro-developmental conditions. 	<ul style="list-style-type: none"> • Announced the world's first airport Ultra Low Emission Zone (ULEZ) to be introduced in 2022 to discourage older, more polluting passenger cars and private hire vehicles from using the roads around Heathrow, improving air quality and reducing congestion. • Launched Way2Go, a new colleague initiative to help all Team Heathrow colleagues find cheaper, smarter, healthier and greener ways to get to work including car sharing, public transport, cycling and walking. • The latest noise contour report showed a continued reduction of the overall noise levels with the smallest ever noise footprint (note the most recent available report is from 2018).
A thriving sustainable economy	A world worth travelling
<ul style="list-style-type: none"> • 64 out of 108 contracts were amended to ensure workers in our supply-chain receive the London Living Wage, exceeding our target of 49. Over an estimated 1,300 Team Heathrow colleagues benefited from a salary uplift as a result. • Delivered the third 'World of Opportunity' SME grant scheme, awarding £40,000 in vital seed money to 20 firms to fund international trade missions and foreign market research. • Became the world's first Sustainable Fish Airport, with all retail business partners at Heathrow adopting a sustainable fish buying policy. This covers four million meals per year. 	<ul style="list-style-type: none"> • In 2020, Heathrow became carbon neutral by offsetting our 2018 emissions for the energy used in our terminals. • Enabled over £500,000 of investment in sustainable innovation projects through direct and partnership funding via our Heathrow Centre of Excellence for Sustainability. • Trialled new technology to help turn unrecyclable plastic waste into low carbon fuels.

A great place to work



We believe the places we work should provide people with opportunities. We want everyone who works here to feel they can be happy, motivated and developed in ways which encourage them to flourish.

Careers, not just jobs

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

Sustainability performance indicator	2018 performance	2019 target	2019 performance
Total Team Heathrow number of apprenticeships ²	310 ³	400	1093
Number of apprenticeships ¹ arranged through the Heathrow Academy	159	150	175

¹ Measured by number of apprenticeship starts

² This now reflects additional apprenticeships reported by Team Heathrow companies that were not included in the 2018 Sustainability Report

³ We have restated our data for 2018 which was previously reported as 159 to include additional apprenticeships by Team Heathrow companies.

Apprenticeships play an important role in building the UK's skills base. To help us achieve our goal of 10,000 apprenticeships by 2030, we launched and funded a shared apprenticeship scheme with our construction supply-chain in early 2019. A first for a UK airport, this will allow apprentices at Heathrow to establish a broad range of skills and experience by working with multiple companies to complete their apprenticeship. We also launched a skills partnership to offer over 80 apprenticeship qualifications.

918 apprenticeship starts were independently facilitated by Team Heathrow companies in 2019. These were mainly delivered through a new cabin crew apprenticeship programme that began in 2019. 175 people started their apprenticeships through the Heathrow Academy during 2019. This included 55 apprenticeships with Heathrow Airport Ltd, 29 through the shared apprenticeship scheme and 91 with Team Heathrow companies, facilitated through the Heathrow Academy. This brings the total number of apprenticeship starts to 1,093, far exceeding our target of 400.

Heathrow is developing an apprenticeship delivery plan that will highlight the required number of apprenticeships, in what areas, the level of qualification and when these will be required to meet our goal of 10,000 apprenticeships by 2030.

Diversity and inclusion

We have a flagship goal to reflect local diversity at every level by 2025 so that we can become a truly great place to work whilst helping local people find careers that can fulfil their potential. During 2019 we agreed a strategy to meet this ambitious goal and we are putting in place actions and measures to progress this.

Our diversity networks help us promote an inclusive culture through events, fundraising and awareness campaigns. They include: Proud, our LGBT+ network; HAND, Heathrow Airport's Network for Disability; en-hANCE our culture and ethnicity network; and Altitude, our gender equality network. Each network has an executive sponsor who acts as mentor and supports the successful implementation of network projects. Network meetings are regularly attended by our CEO and members of our Executive team.

Our 2019 gender pay gap report shows our gap is below the national average. Our mean gender pay gap is 9.8% (compared to 10.5% in 2018) and our median pay gap is 3.0% (compared to 0.6% in 2018). We are making progress to address our gender pay gap, in particular improving female representation in more senior, higher paid roles, by recruiting and promoting women into these roles. We have progressed, but there is still more to do.

While we're proud of these improvements, we are aware that women and colleagues from black, Asian and minority ethnic (BAME) backgrounds remain under-represented in our senior leadership, accounting for 35% and 17% respectively of the most senior roles in 2019. Addressing this is a priority and our approach is summarised in our Sustainability Report.

% colleagues who are	Female		Black, Asian and Minority Ethnic (BAME)	
	2018	2019	2018	2019
Senior Managers ¹	33%	35%	15%	17%
All Colleagues ²	43%	43% ³	42%	43%

¹ Executive to band C

² All directly employed colleagues of the Heathrow Airport Holdings Limited Group as defined on page 78.

³ Calculated from total number of colleagues employed by Heathrow Airport Holdings Limited during 2019. The gender pay gap reports 42% which represents colleagues employed at April 2019.

Photo of umbrella installation

[Caption: This display installed at Heathrow Terminal 5 in partnership with the ADHD Foundation raised awareness of hidden disabilities such as attention deficit hyperactivity disorder (ADHD), autism, dyslexia, dyscalculia and dyspraxia. It supported a wider education programme with local schools to celebrate the gifts, talents and employability of people with neuro-developmental conditions.]

A great place to live



We want to be a responsible neighbour that benefits our local community. We're working with airlines and other partners to reduce the impact of noise and emissions from Heathrow and to support projects that improve quality of life around the airport.

Respite for Residents

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

Sustainability performance indicator	2018 performance	2019 target	2019 performance
Late-running aircraft*	268	219	257

*Unscheduled departing aircraft operating after 23:30 on non-disrupted days, with the goal seeking to at least halve the number by 2022

To reduce noise disturbance, we incentivise the use of quieter aircraft and quieter operational procedures, and we work to reduce late-running flights at night. We did not meet our 2019 target due to the influence of factors such as increased air-traffic across Europe, air-traffic control resourcing challenges, weather, aircraft technical issues delaying departures as well as capacity restrictions across multiple air-traffic sectors. We have made progress towards our end goal, which is to at least halve the number of flights, to 165, that operate after 23:30 on non-disrupted days. In 2019, 257 flights departed after 23:30, which was a 4% improvement on 2018. In 2019 there were 119 nights with no flights, arrivals or departures between 23:30 and 04.30 (2018: 115). In 2019 we changed the landing noise fee so that it has been divided into landing and departure noise fees. Airlines now pay a factor of five penalty for movements in the core night period (23.30-06.00).

The Heathrow 'Fly Quiet and Green' quarterly league table, recognises the best-performing airlines for noise and emissions, and encourages improvement. The results show that 60% of movements were by aircraft in the quietest chapter and under 1% in the noisiest chapter, demonstrating airlines are swapping in newer, quieter and more efficient aircraft to their fleets, and improving how they fly to Heathrow to decrease noise and emissions.

Quality Air, Locally

We're working to improve air quality for the communities around Heathrow through our Emissions Strategy and Action Plan. This commits us to: improve efficiency and minimise fuel use; employ the latest technologies; and use our size and scale to encourage others to act.

Road vehicles are the main source of local air pollution. We have a goal of 50% of airport passenger journeys made by public transport by 2030, so local areas can thrive without increased congestion. We will report on progress in our next Sustainability Report.

In May, we announced the world's first airport Ultra Low Emission Zone (ULEZ). From 2022, the Heathrow ULEZ will discourage older, more polluting passenger cars and private hire vehicles from using the roads around Heathrow through charges, improving air quality and reducing congestion. It's the first step towards a wider Vehicle Access Charge (VAC) scheme that will be introduced in the future. The money raised through the ULEZ will help fund measures to improve sustainable transport modes and public transport access as part of our expansion.

We also have a goal to cut colleague car trips by 25% by 2030. In October 2019 Heathrow launched a new colleague campaign, Way2Go, to help all Team Heathrow colleagues find cheaper, smarter, healthier and greener ways to get to work whether that's car sharing, public transport, cycling or walking. Nearly 2,000 colleagues signed up to receive updates on sustainable travel options and we met with 25 of the largest Team Heathrow companies to discuss how we can work together to change commuting behaviours.

The campaign helps Heathrow to meet our external Airport National Policy Statement (ANPS) targets as well as helping colleagues save money, cut their carbon footprint and boost their physical and mental wellbeing – whether it's for one journey a month or the last mile every day.

To improve the public transport options for colleagues, we have delivered, in partnership with operators, new routes. These include the RA2 to Guildford, the X442 shuttle between Staines and Terminal 5, an extension of the 102 which restores direct connections to Buckinghamshire and launched the 459 serving Iver, Langley and Colnbrook.

To tackle emissions from airside activities, we will establish an airside ultra-low emissions zone by 2025. We have consulted with our airside partners on the standards that we'll require from vehicles in 2025.

Sustainable communities

We aim to have a positive impact on the communities around Heathrow, supporting projects that make local areas better places to live.

Our Princes Lakes site, for example, includes over 100 acres of woodland and lakes. We have been improving habitats for wildlife on the site through working with the Surrey Wildlife Trust grazing programme and local Scouting and Beaver groups. In recognition of this work, the site received a Biodiversity Legacy Award in 2019 from the Construction Industry Research and Information Association (CIRIA). Heathrow also received the Wildlife Trust's benchmark award for the 12th year running. This represents the long-term commitment we have to our local environment.

A thriving sustainable economy



More than 400 businesses operate from or supply goods and services to Heathrow, but our influence stretches far beyond our boundary. As the UK’s only hub airport, we have a critical role to play in the national economy – both today and in the future. We want to use our influence to drive change that is ethical, low carbon and sustainable.

Connecting the UK

By 2033, we want the UK’s 100 largest towns and cities to be connected to Heathrow, through direct coach, rail services, and domestic air routes.

In December, we increased our surface-access connectivity to the UK; we are now connected to 64 of the UK’s 100 largest towns and cities, with Warrington and Southport now connected via a new coach service, and Lincoln and Harrogate connected through a change to the London North Eastern Railway train timetable. We also launched a new connection to Guildford, thanks to a new RailAir coach link with First Bus. The hourly service connects Heathrow with Guildford train Station and is timed to coincide with fast trains from the south.

The Next Economy

Small and medium-sized businesses (SMEs) play an important role in the UK economy as job creators and source of innovation. We support them to join our supply-chain and to showcase their products to Heathrow passengers.

We held our 23rd annual flagship Heathrow Business Summit. This followed a year-long tour consisting of 11 Business Summits in cities across the UK, including Edinburgh, Newcastle, Stoke, Belfast and Cardiff, in conjunction with local business organisations and supported by the Department for International Trade (DIT). These provided opportunities for over 870 SMEs to meet with our largest suppliers and professional trade advisers, and to find out about opportunities around the country connected to Heathrow’s expansion.

Through our World of Opportunity programme, we also partnered with the DIT to offer 20 SMEs across the UK a grant and export advice to expand their business overseas. This year’s winners included a Yorkshire-based family business that produces a range of premium honeycomb chocolate; a Scottish business aiming to simplify access to space; a South West-based pet food business and a social enterprise creating a range of ethically designed, light-reflective adaptable accessories for cyclists and outdoor enthusiasts.

Sustainable Supply-chain

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

Sustainability performance indicator	2018 performance	2019 target	2019 performance
London Living-Wage Contracts*	N/A	49	64

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

We’ve been a London Living Wage employer since 2017. As we work to move all our direct supply-chain colleagues at Heathrow to the London Living Wage by 2020, we are also removing the use of zero hours contracts. We have exceeded our target by updating 64 out of 108 supplier contracts included in the scope of our London Living Wage Roadmap, uplifting an estimated 1,300 Team Heathrow colleagues to the Living Wage and protecting an estimated 1,275 through contractual changes during 2019.

Sustainable Retail Experience

In 2019, Heathrow became the world’s first Sustainable Fish Airport, recognised by Sustain (the alliance for better food and farming). All 37 retail and food suppliers at the airport have signed up, meaning that four million fish meals served at Heathrow each year will now be more sustainably sourced.



A world worth travelling



Our world is a joy to travel. But we must do more to protect it if we want to keep enjoying all it has to offer. First and foremost, we have to address carbon. The UK aviation sector including Heathrow has committed to net-zero emissions even as we grow. Heathrow is using its scale and influence globally to lead change towards that goal. The enemy is not aviation but carbon. The UK industry's pathway shows how we can protect the benefits that aviation brings in a world without carbon. As Heathrow we've also set a goal to operate a zero-carbon airport.



Peatland Image

Caption: Heathrow Centre of Excellence working with Lancashire Wildlife Trust on our first restoration project at Little Woollen Moss, part of Chat Moss, a larger wetland area west of Manchester.

Our carbon strategy

Climate change is the greatest challenge facing our generation. The goal could not be clearer: we need to get the global economy to net-zero by 2050, if not earlier. That includes the aviation industry. Aviation is a force for good in the world, helping power economic growth and bring people and cultures together. Heathrow matters because of our role connecting the UK to global growth. Aviation is not the enemy – carbon is.

At Heathrow, we will not shy away from the challenge to protect the benefits of aviation in a world without carbon. Action here matters not just because we must help the UK achieve its net-zero target, but because we can use our status as a major global hub airport to accelerate change in our industry and around the world.

We know that change is possible. While UK passenger numbers have grown by 25% since 2005, there has been a 3% reduction in carbon emissions. However, our ambition must be greater and the whole aviation industry must make progress faster with the help of Government.

The whole UK aviation sector– airlines, airports and manufacturers – has recently committed to reach net-zero emissions by 2050. That is the target that the Intergovernmental Panel on Climate Change (IPCC) recommend is required to stand the best chance of limiting temperature rises to 1.5 degrees. It is the target that the UK Government has set. Sustainable Aviation's "Pathway to Net-Zero" shows that target can be met even as the industry and Heathrow grow, through a mix of cleaner aircraft and engines, new sustainable fuels and high quality greenhouse gas removals.

The 2020s is the critical decade in the fight against climate change. The action we all take over the next ten years will determine whether we can reverse the climate emergency.

That's why we have recently published our new carbon plan showing how we will act over the next ten years, alongside airlines, manufacturers, governments and passengers. It includes clear goals that will help us to get our own emissions to net-zero, help the whole industry achieve a net-zero future and use our scale to help the wider economy decarbonise too.

Definitions

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

Net-zero: This means that the maximum feasible emission-reductions of carbon have been made, and any residual emissions are counterbalanced by an equal volume of carbon removals achieved by purchasing offset credits.

By the end of 2020 we will publish our plan to achieve net-zero for airport infrastructure as soon as possible. Sustainable Aviation has also committed the UK aviation industry to achieving net-zero by 2050.

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

Target Net-zero: Our carbon plan

Finishing the job of getting our own house in order

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

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

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

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

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

Removing carbon from the atmosphere

8. We will help passengers to offset their flights and increase our own investment in natural and technological solutions to remove carbon from the air until aviation reaches net-zero carbon.

We will keep evolving this plan and testing ourselves to go further wherever possible, working with airlines, airports, manufacturers, government and academics to consider what further steps we can take together.

We believe there is scope for the Government to help the aviation industry move faster by supporting the development of new zero-carbon technologies, developing a clear net-zero standard, investing in new public rail schemes and incentivising the development and take-up of more sustainable aviation fuel – for example, through the Air Passenger Duty and promoting offsetting.

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

Towards a net-zero UK

We welcome the UK Government's announcement of a legally binding target of net-zero emissions by 2050 and the Committee on Climate Change's recommendation to include aviation in this target. Our carbon targets are consistent with this objective, and, together with 203 other airports, we support ACI-Europe's (Airports Council International) commitment to achieve net-zero carbon emissions by 2050.

The ACI-Europe commitment also called for the global aviation sector to commit to net-zero. IAG, our largest airline customer, was the first airline group worldwide to commit to net-zero carbon for flight by 2050 and several airlines including Qantas, Etihad and easyJet have also announced such targets. We are working with them, and others to make this the standard in global aviation, to take the carbon out of flying and remove any competitive distortions.

Together with other members, we also support the UK Sustainable Aviation coalition's commitment, announced in January 2020, for UK aviation to achieve net-zero emissions by 2050.

Low carbon aviation in action: highlights of our progress so far

We continue to make progress to cut our own emissions and work with our industry partners to do the same. We want to be at the forefront of helping people travel in a smarter and cleaner way, helping to catalyse change across the aviation industry. Here are some of the highlights of our progress in 2019.

Finishing the job of getting our own house in order

We have cut emissions from energy used to power and heat Heathrow by well over 90% since 1990. Heathrow now runs entirely on renewable electricity and green gas. Some of our heat and power is generated on site from one of the UK's largest biomass boilers, run on sustainable woodchip from the local region. Our goal is to operate fully zero-carbon infrastructure by the mid-2030s. To do that we will switch to an electric heat pump system to warm and cool the airport and switch all our vehicles to electric too.

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

More efficient aircraft movement

We are working with airlines and NATS on ways to cut emissions from aircraft. They include encouraging airlines to use a reduced number of engines to taxi to and from the runway, adopting smart airfield design to decrease taxiing distance, using plug-in power and improving take-up of pre-conditioned air (PCA) for aircraft at the gate.

Leading the charge towards electric travel

We have invested over £7 million to build one of the biggest electric-vehicle charging networks in Europe, and we are giving away up to £1million in landing fees to the first airline to fly a commercial, electric or hybrid service from Heathrow.

Working with our partners to decarbonise flight

Encouraging greener and quieter aircraft

64% of flights landing at Heathrow are made by the newest and greenest aircraft. Airlines can benefit from landing fees up to 11 times cheaper by utilising greener and quieter aircraft, steering them towards better choices for people and planet.

Supporting sustainable fuels pilot projects

Our 2019 Innovation Prize, worth £30,000, attracted 34 entries on the theme of zero-carbon air travel. The winning entry was research by University College London and specialist catalyst company Catal, to turn unrecyclable plastic waste – including food packaging and plastic film – into a chemical feedstock that could be used for a range of potential products including low-carbon fuels.

Restoring English peatland to offset our carbon emissions

We are restoring English peatlands - a type of natural habitat critical for biodiversity - to take carbon out of the air. Our first unique project with Lancashire Wildlife Trust, covering 70 hectares, is expected to sequester more than 22,000 CO₂ tonnes over 30 years.

Engaging passengers

We want to make it easier for customers to reduce the carbon impact of their flights. In early 2020, we launched a consumer offsetting platform – making it quick and easy for customers to purchase carbon offsets to cover their flights. The offsets will support a reforestry program in Uganda and a wind farm in Costa Rica.

We also ran an awareness campaign to highlight the work we're doing on climate change and show people how they can get involved.

Elephant graphic

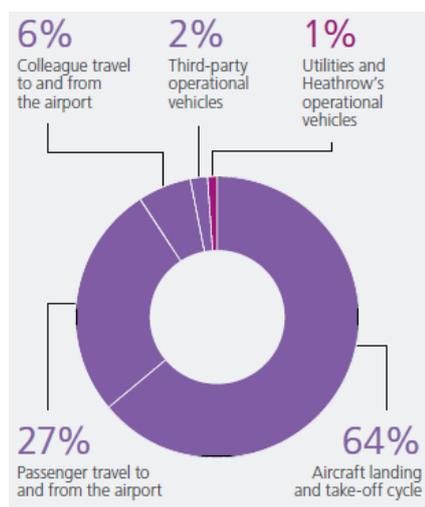
Caption for collage: These adverts are part of our carbon campaign for our passengers, which we launched in January 2020. The campaign focuses on how Heathrow is tackling the elephant in the airport - climate change.

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 work towards our aim of zero-carbon airport infrastructure by the mid 2030s.

The data in this report is for 2018. Our carbon footprint data for 2019 will be published later in 2020. Calculating our footprint relies, in part, on external data sets which are not yet available.

This footprint follows Airport Council International's (ACI) Airport Carbon Accreditation guidance, so includes emissions from our infrastructure, travel to and from the airport and aircraft in the landing and take-off (LTO) cycle. It does not account for emissions from aircraft in cruise, which account for 89% of Heathrow's total emissions (based on 2016 emissions).



Emission source	Greenhouse Gas emissions (tCO2e)		
	2016	2017	2018
Scope 1	30,239	26,691	26,246¹
Scope 2 – (electricity consumption market based)	63,393	15,680	0
Scope 2 ² (Grid electricity consumption – location based)	121,049	97,408	79,921
Scope 3	2,083,077	2,006,786	2,062,895
Total³	2,176,708	2,049,157	2,089,141

¹ A reduction of 2,105 tonnes was attributed to purchasing Renewable Gas Guarantee of Origin certificates (RGGOs)

² Following the Greenhouse Gas Protocol these scope 2 emissions are reported together, however location based emissions are not included within total emissions.

³ Excludes Scope 2 (Grid electricity consumption – location based).

Our scope 1 and 2 footprint reflects our operational control both at the airport and off-site – including our parking-pod test track and Business Support Centre (BSC) – and aligns with the Greenhouse Gas Protocol (GHGP), which provides accounting and reporting standards, as well as sector guidance. Market-based emissions for grid electricity have been used to calculate total emissions.

Scope 2 market-based emissions for 2018 were nil. This is because our electricity was sourced using a Renewable Energy Guarantee of Origin (REGO) backed contract. The REGO certificate covers HAL (Heathrow Airport Limited), our parking-pod test track and BSC (in Glasgow), all of which fall under Scope 2 electricity.

Our scope 3 footprint includes emissions that Heathrow doesn't control but can influence. Such emissions include passenger and colleague surface access and emissions from aircraft in the LTO cycle. Our scope 3 footprint does not currently include supply-chain emissions, specifically from freight and logistics activity. However, we are currently mapping out these emissions as part of our Carbon Trust supply-chain accreditation.

How we performed in 2018

Our carbon footprint increased by 1.95% year-on-year but decreased by 4% over two years.

Carbon emissions we control (approximately 1%) fell due to improvements in energy efficiency and our purchase of renewable electricity.

Heathrow uses only 100%, REGO-certified renewable electricity, with wind as the main source – so everything from the check-in screens to last-minute, pre-flight phone battery top-ups is powered by 100% renewable electricity. With 124 solar panels on its roof, and its own biomass boiler powered by waste wood chips from woodlands in southern England, Terminal 2 is generating its own green energy too.

Carbon emissions that we influence (approximately 99%) increased year-on-year due to increases in areas such as passenger and colleague travel to the airport. There was a small rise in emissions from aircraft in their landing and take-off (LTO) cycle, in line with a slight increase in the number of flights.

We offset any scope 1 and 2 carbon (and scope 3 business travel) emissions, that we can't yet eliminate, by purchasing carbon credits. For our 2018 emissions, we purchased 27,244 carbon credits to offset Heathrow's gas, electricity, operational vehicles and business travel, making Heathrow carbon-neutral for our scope 1 and 2 emissions. We have also purchased carbon credits to offset anticipated emissions for 2019 to 2021.

Further details can be found in our carbon footprint report at www.heathrow.com.

Expansion

Heathrow is the UK's only hub airport, serving more than 80 million passengers last year and providing over 75% of the UK's long-haul connections. We also play a vital role in trade; we're the UK's largest port by value, handling over £118 billion of total value of non-EU trade in the last year. However, Heathrow has been operating at 99% capacity for more than a decade. While competitor hub airports across Europe and beyond have been expanding their networks, Heathrow's growth, and consequently the UK's growth, has been constrained.

Our draft preferred Masterplan proposes a new full-length runway to the north-west.

Benefits include:

- 10,000 apprenticeships by 2030.
- Up to 40,000 new local jobs during construction and operation of the expanded airport.
- Supply-chain opportunities spread across the UK, including four Logistics Hubs.
- At least 260,000 additional ATMs.
- Up to 40 new long-haul trading routes.
- 2x current cargo capacity for British exporters.
- Economic growth and benefits for UK PLC.



Expanding Heathrow will connect all of the UK to global growth for generations to come. We would be one of the best-connected countries in the world, with regular direct flights to all the major cities in the United States, China and India, the great economies of the 21st century.

Heathrow Expansion will add up to 40 new long haul routes; it will create new domestic routes so all parts of the UK can connect to the world via the UK's hub; and it will double cargo capacity to help British businesses get their goods to key markets. The construction and operation of an expanded Heathrow will generate tens of billions of pounds in GDP and tens of thousands of jobs across the country, while pioneering off-site manufacturing through a network of four Logistics Hubs located across the UK. For passengers, new capacity will drive down airfares through greater competition and more choice of airlines and destinations.

On a local level, expansion means 10,000 apprenticeships and up to 40,000 new local jobs, so future generations can fulfil their career potential at an expanded Heathrow. Our plans include transformational investment in our local area to strengthen transport connections, education and skills opportunities, and the creation of new green spaces to bring communities closer together and improve quality of life.

In 2018, MPs voted overwhelmingly in support of the Airports National Policy Statement at a ratio of almost 4:1, which was then designated by Government. Since then, we've refined our plans through consultation and engagement with local communities, airlines, passengers, and a wide range of other stakeholders. We look forward to submitting our application for Development Consent towards the end of 2020, and expect our new runway to open between early 2028 and late 2029.

Key Expansion developments

Heathrow expansion took a significant step forward in 2019 as we completed our statutory consultation after unveiling our Draft Preferred Masterplan for the project. The consultation outlined the latest plans for our future airport, how we propose to operate and manage our growth and how we will ensure a sustainable, affordable, financeable and deliverable expanded Heathrow at no cost to the taxpayer. We are now working to finalise the Masterplan and will hold a further eight-week public consultation between April and June before submitting our DCO application towards the end of 2020. Our DCO application will detail how the airport proposes to expand and connect all of Britain to global growth, whilst meeting the requirements of the Airports National Policy Statement. It will also restate our commitment to ensuring an expanded Heathrow meets strict environmental targets, delivers tens of thousands of new high-skilled jobs and honours the commitments the airport has made to local communities.

We remain committed to the long-term sustainable expansion of Heathrow. A key component of this is set out in our proposals for an Environmentally Managed Growth framework. It sets out our proposals for how our growth would be managed in accordance with strict environmental limits on air quality, surface access, noise and carbon, and supports growth in flights at the airport while ensuring our environmental performance stays within maximum limits. We are also committed to reducing the impact of construction on the local environment, by adopting innovative construction practices including our logistics hubs - four off-site centres for pre-assembly and consolidation located across the UK - to help us deliver expansion sustainably and efficiently.

EXPANDING HEATHROW IN THE RIGHT WAY

Air Noise	Air Quality	Surface Access	Carbon
6.5 hour ban on scheduled night flights. Fewer people impacted by noise contour than in 2013. Greatly expanded noise insulation programme for eligible properties.	Heathrow Ultra Low Emissions Zone by 2022. Expanded infrastructure for charging electric and hybrid vehicles. Vehicle access charge. Surface Access Strategy implementation.	25% reduction in colleague car trips by 2030 and 50% by 2040 At least 50% of our journeys made to the airport by public transport by 2030 and at least 55% by 2040. Improving bus and rail connectivity.	Delivered carbon-neutral airport operations. Zero carbon airport operations by 2050. Aspire for carbon-neutral growth from the new runway.

Update above diagram for changes 210220

Our charity partnerships

As the UK's leading airport, we have a responsibility to not only reduce the negative impacts we create for our stakeholders, but to deliver a positive future as well. Working with three chosen charity partners and overseen by our Charities and Communities Committee, we raise funds, donate time and meet the shared objectives of colleague and passenger engagement and our community strategy in order to deliver our Heathrow 2.0 sustainability commitments. Our charity partners are:

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

In 2019 we donated £0.9 million (2018: £1.0 million) and we also leveraged¹ funds totalling £0.6 million from colleague fundraising, passenger donations and donations from other airport companies.

Midnight Marathon Photo

Caption for photo: Our Team Heathrow colleagues raising money for all three of our main charity partners, at our Midnight Marathon event in 2019.

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

CARE International

CARE International is a charity that works around the globe in 100 countries to save lives, defeat poverty and achieve social justice. Our partnership enables our passengers and colleagues to support entrepreneurs living in poverty around the world, through the 'Lendwithcare' initiative. 'Lendwithcare' is an online lending platform that allows you to personally give entrepreneurs much-needed access to credit and training. This money is then used to help change the lives of those living in poverty. CARE receives donations from our passengers and money generated through fundraising by Heathrow colleagues and others.

In 2019 passengers donated £286,000 and a further £38,000 was leveraged¹ from colleague and Team Heathrow fundraising.

The Duke of Edinburgh's Award

The Duke of Edinburgh's Award (DofE) programme transforms young people's confidence, skills and wellbeing.

Our partnership gives colleagues the chance to challenge themselves to do their own Gold DofE Award and to participate in fundraising events that unlock their own potential, building self-belief and team-working abilities. This includes taking on challenges and offering work experience days for local young people.

DofE receives a combination of input funding from Heathrow and money generated through fundraising by Heathrow colleagues and others.

In 2019 we gave £200,000 and a further £142,000 was leveraged¹ from colleague and Team Heathrow fundraising.

Heathrow Community Trust

Heathrow Community Trust is an independently run grant-making charity.

The Trust's grant programme funds projects that improve quality of life for communities near the airport. It also supports colleague volunteering and fundraising to improve the community where they live or a cause that they believe in.

As well as input funding from Heathrow, the Trust receives noise fines levied on airlines when they break noise regulations, donations from other companies associated with the airport and money generated through fundraising by Heathrow colleagues and others.

In 2019 we gave £725,000 and a further £99,000 was leveraged¹ from colleague and Team Heathrow fundraising.

Fundraising

We helped to leverage¹ funds worth £296,000 from colleagues and fundraising events, £286,000 from passenger donations and £37,000 from other airport companies. These funds were largely split between to our three main charity partners.

Events in 2019 included Midnight Marathon where over 400 Team Heathrow colleagues took part, raising over £50,000.

Financial review



“Heathrow remains in strong financial health. Passenger growth supported a 3.4% increase in revenue. A focus on efficiency, combined with revenue growth resulted in adjusted EBITDA increasing 4.6% to £1.9bn. Heathrow continues to invest in its future, and £856 million was invested into the airport this year. Strong balance sheet with liquidity extended to October 2021 after raising £2.1bn in global capital markets.”

Javier Echave
Chief Financial Officer

Year ended 31 December	2018 £m	2019 £m
Revenue	2,970	3,070
Adjusted operating costs ⁽¹⁾	(1,133)	(1,149)
Adjusted EBITDA ⁽²⁾	1,837	1,921
Depreciation and amortisation	(743)	(771)
Adjusted operating profit ⁽³⁾	1,094	1,150
Net finance costs before certain remeasurements	(827)	(775)
Adjusted profit before tax ⁽⁴⁾	267	375
Tax charge on profit before certain remeasurements	(58)	(104)
Adjusted profit after tax ⁽⁴⁾	209	271
Including certain remeasurements		
Fair value gain on investment properties	117	43
Fair value gain on financial instruments	38	128
Tax charge on certain remeasurements	(31)	(29)
Profit after tax	333	413

(1) Adjusted operating costs excludes depreciation, amortisation and fair value adjustments on investment properties.

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

(3) Adjusted operating profit excludes fair value adjustments on investment properties.

(4) Adjusted profit before and after tax excludes fair value adjustments on investment properties and financial instruments and associated tax.

Basis of presentation of financial results

Heathrow (SP) Limited (the 'Company' or 'Heathrow SP') is the holding company of a group of companies (the 'Group'), which includes Heathrow Airport Limited (HAL) which owns and operates Heathrow airport, and Heathrow Express Operating Company Limited (Hex Opco) which operates the Heathrow Express rail service. Heathrow SP's consolidated financial statements are prepared under International Financial Reporting Standards (IFRS).

Management use 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 in note [x].

Summary performance

In the year ended 31 December 2019, the Group's revenue climbed 3.4% to £3,070 million (2018: £2,970 million). Adjusted EBITDA increased 4.6% to £1,921 million (2018: £1,837 million), and its profit after tax increased 24.0% to £413 million (2018: £333 million).

Following the adoption of IFRS 16, £52 million of operational lease costs are now reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs and within EBITDA. Adjusted EBITDA excluding the application of IFRS 16 has increased 1.7% to £1,869 million (2018: £1,837 million).

Revenue

In the year ended 31 December 2019, revenue increased 3.4% to £3,070 million (2018: £2,970 million).

Year ended 31 December	2018 £m	2019 £m	Var. %
Aeronautical	1,745	1,831	4.9
Retail	716	722	0.8
Other	509	517	1.6
Total revenue	2,970	3,070	3.4

Aeronautical revenue has increased by 4.9% compared to 2018. Aeronautical revenue per passenger increased 3.9% to £22.64 (2018: £21.78). A combination of record passenger traffic, favourable mix of passengers and recovery of prior-year yield dilution continue to be key drivers of growth. This has been partially offset by the introduction of our new commercial airline deal, providing a saving of £0.55 per passenger on airline charges.



Retail revenue

Year ended 31 December	2018 £m	2019 £m	Var. %
Retail concessions	323	342	5.9
Catering	61	64	4.9
Other retail	128	113	(11.7)
Car parking	126	125	(0.8)
Other services	78	78	0.0
Total retail revenue	716	722	0.8

Retail revenue has grown by 0.8%, retail revenue per passenger remained flat at £8.93 (2018: £8.94). Growth was led by retail concessions and catering, reflecting record passenger traffic. The Sterling Pound weakening against both the Euro and US Dollar also contributed in driving retail concessions. Other retail revenue declined due to bureaux de change customers favouring alternative methods of pre-booked currency, and a one off contractual benefit received in 2018 which will not reoccur. Excluding the one off contractual benefit in 2018, retail revenue per passenger would have increased by 1.0% to £8.93 (2018: £8.83).

Other Revenue

Year ended 31 December	2018 £m	2019 £m	Var. %
Other regulated charges	243	244	0.4
Heathrow Express	123	117	(4.9)
Property and other	143	156	9.1
Total other revenue	509	517	1.6

Other revenue increased 1.6% in 2019 to £517 million. Property and other revenues grew 9.1% driven by rail track-access charges. Heathrow Express saw a 4.9% decline in revenue due to lower prices to remain competitive and lower Crossrail compensation.

Adjusted operating costs

Adjusted operating costs increased 1.4% to £1,149 million (2018: £1,133 million). Adjusted operating costs per passenger increased by 0.4% to £14.21 (2018: £14.14).

Year ended 31 December	2018 £m	2019 £m	Var. %
Employment	378	378	-
Operational	264	279	5.7
Maintenance	176	173	(1.7)
Rates	122	117	(4.1)
Utilities and Other	193	202	4.7
Adjusted operating costs	1,133	1,149	1.4

Following the adoption of IFRS 16, £52 million of operational lease costs are now reported below operating profit. Of the £52 million, £24 million would have been located within operational costs, £2 million within maintenance costs and £26 million within utilities. Excluding the application of IFRS 16, adjusted operating costs are up 6.0% to £1,201 million, and on a per-passenger basis up 5.0% to £14.85.

Operational costs have increased as we gear up for growth with investment in expansion, security, resilience and passenger experience. We spent more on services for passengers with reduced mobility, upgrading drone defence capabilities, implementing new hold-baggage screening and investing in our IT systems. Utilities costs also increased due to a rise in government levies on usage, whilst overall consumption declined.

Operating profit and adjusted EBITDA

In the year ended 31 December 2019, operating profit decreased 1.5% to £1,193 million (2018: £1,211 million). The decrease was due to a lower gain in the non-cash fair value of our investment properties offset by the favourable impact of operational lease costs now reported below operating profit.

Year ended 31 December	2018 £m	2019 £m
Operating profit	1,211	1,193
Depreciation and amortisation	743	771
EBITDA	1,954	1,964
Exclude fair value gain on investment properties	(117)	(43)
Adjusted EBITDA	1,837	1,921
Impact of IFRS 16 ⁽¹⁾	-	(52)
Adjusted EBITDA excl. impact of IFRS 16⁽¹⁾	1,837	1,869

(1) Following the adoption of IFRS 16, £52m of operational lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA.

Depreciation and amortisation increased to £771 million (2018: £743 million) impacted by an additional £35 million of depreciation due to the transition to IFRS 16.

Fair value gain on investment properties decreased to £43 million (2018: £117 million) due to a smaller increase in the value of our car-parks compared to 2018.

Adjusted EBITDA increased 4.6% to £1,921 million (2018: £1,837 million), resulting in an adjusted EBITDA margin of 62.6% (2018: 61.9%). Adjusted EBITDA excluding the application of IFRS 16 has increased 1.7% to £1,869 million. (2018: £1,837 million).



2019 1,869 – Chaos need to update 2019 to 1,869

Profit after tax

For year ended 31 December 2019, the Group recorded a profit before tax of £546 million (2018: £422 million profit). Profit after tax increased 24.0% to £413 million (2018: £333 million profit).

Year ended 31 December	2018 £m	2019 £m
Operating profit	1,211	1,193
Net finance costs before certain remeasurements	(827)	(775)
Fair value gain on financial instruments	38	128
Profit before tax	422	546
Taxation charge	(89)	(133)
Profit after tax	333	413

Net finance costs before certain remeasurements decreased to £775 million (2018: £827 million) due to RPI growth rate for the 12-months to December 2019 falling to 2.2%, down from 3.2% in the same prior period.

Fair value gains on financial instruments increased to £128 million (2018: £38 million) as a result of a decrease in long term inflation expectations.

Taxation

The total tax charge for the year ended 31 December 2019 is £133 million (year ended 31 December 2018: £89 million), representing the sum of the tax charge on profits before certain remeasurements and the tax charge on certain re-measurements. The tax charge before certain re-measurements for the year ended 31 December 2019 was £104 million (2018: £58 million), resulting in an effective tax rate of 27.7% (year ended 31 December 2018: 21.7%). The effective tax rate being higher than (2018: higher than) the statutory rate of 19% (2018: statutory rate of 19%) primarily reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. For the period, the Group paid £98 million (year ended 31 December 2018: £70 million) in corporation tax.

Cash flow

At 31 December 2019, the Group had £1,540 million (2018: £711 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £815 million (2018: £591 million). As we transition into a period of intense investment, surplus funds are managed through a variety of investment products in line with policy thresholds to maximise available returns.

Cash generated from operations

In the year ended 31 December 2019, cash generated from operations increased 8.7% to £1,942 million (2018: £1,787 million). This continues to demonstrate our strong ability to convert operating profit into cash. The following table reconciles adjusted EBITDA to cash generated from operations.

Year ended 31 December	2018 £m	2019 £m
Cash generated from operations	1,787	1,942
<i>Exclude:</i>		
(Decrease)/increase in receivables and inventories ⁽¹⁾	46	(57)
(Increase)/decrease in payables	(11)	7
Decrease in provisions	-	7
Difference between pension charge and cash contributions	15	22
Adjusted EBITDA	1,837	1,921

(1) Includes movement in Group deposits

Capital expenditure

Total capital expenditure in 2019 was £856 million (2018: £793 million). We invested £620 million (2018: £666 million) in a variety of programmes to improve the passenger experience, airport resilience and for asset replacement. We also progressed our plans to expand Heathrow with investment of an additional £236 million in the period (2018: £127 million).

We continued to invest in airfield and resilience programmes. Work is underway to meet the next-generation security requirements mandated by the Department for Transport (DfT). Significant investment continues in automating the passenger journey with the roll-out of self-bag drops and self-boarding gates across all terminals. Further investment has also been made to increase capacity in Terminal 5, with 20 new carriages now on order to double the capacity on the Track Transit System, linking the main terminal to satellite buildings. The Hold Baggage Screening (HBS) upgrade works are progressing well, with the Terminal 5 programme now fully complete. The works in Terminal 4 are progressing well and scheduled to achieve the DfT compliance date in September 2020.

Expansion-related capital expenditure includes Category B costs associated with the consent process and also includes early Category C costs predominantly relating to early design costs.

Since 2016, Heathrow has invested £361m in Category B costs and £89m in Category C costs, a total of £450m that is carried in our balance sheet as assets in the course of construction. By the end of 2020, it is currently forecast that this asset under the course of construction will increase to c.£1bn as set out in the Investor Report published on 20 December 2019.

As outlined in our summary of current regulatory and legal challenges to expansion, if the likelihood of expansion occurring was no longer probable, capital expenditure would be required to be impaired. This would significantly reduce the available distributable reserves of Heathrow Airport Limited (the legal entity holding the asset). Based on distributable reserves as at the 31 December 2019 the potential impairment would not result in negative distributable reserves within Heathrow Airport Limited.

It should also be noted that the non-cash impairment recognised under IFRS is separate to the Regulatory Asset Base. Should a planning decision or the appeal to the Judicial review go against us we expect that most of the assets will remain in the Regulatory Asset Base and continue to generate a return through the regulatory framework. As a result, key covenant ratios would not be materially affected as they are based on the Regulatory Asset Base and income excluding exceptional items.

Restricted payments

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

In the year ended 31 December 2019, total restricted payments paid by Heathrow SP amounted to £269 million (net) or £1,533 million (gross) excluding cash pushed down from Heathrow Finance.

Net restricted payments included:

- a) £478 million (2018: £485 million) payment made by Heathrow SP to Heathrow Finance to fund the majority of the £500 million (2018: £500 million) dividends paid to ultimate shareholders reflecting the continued strong performance of the business.
- b) £110 million (2018: £99 million) of interest on the debenture between Heathrow SP and Heathrow Finance.
- c) £2 million (2018: £2 million) payment to fund interest at ADIF2.
- d) A net cash inflow of £321 million (2018: net cash inflow of £363 million) from Heathrow Finance to Heathrow SP.

Recent financing activity

Continued confidence and support for our credit through expansion enabled us to raise £2.1 billion of debt in 2019. This funding underpins our robust liquidity position and provides additional duration and diversification to our £14 billion debt portfolio. 2019 funding activities comprised around £1 billion in Class A including a JPY note representing our eighth currency of issuance, £75 million in Class B and £1 billion of debt raised at Heathrow Finance.

Class A financing activities included:

- a) A €650 million 15-year Class A bond maturing in 2034.
- b) A €86 million 20.5-year Class A zero coupon bond maturing in 2039.
- c) A CHF210 million 7.5-year Class A bond maturing in 2026, marking our 3rd Swiss Franc issuance.
- d) A £140 million Class A term debt maturing in 2037.
- e) The repayment of our \$400m CAD bond.
- f) An inaugural JPY10 billion 20-year Class A note maturing in 2039.

Class B financing activities included:

- a) A £75 million 15-year Class B private placement maturing in 2035 to be drawn in April 2020.

Financing activities at Heathrow Finance included:

- a) £700 million new loan facilities, with various maturities out to 2035, which are partially drawn.
- b) A £300 million 10-year Heathrow Finance bond maturing in 2029.
- c) The early repayment of £267 million 2019 Heathrow Finance bond on the 4th March 2019.
- d) The repayment of £325 million of term loans.
- e) The migration of £75 million raised by ADIF2 to Heathrow Finance in March 2019.

Our revolving credit facilities were amended to include direct link to ESG factors and extended to 2023.

Financing position

Debt and liquidity

At 31 December 2019, Heathrow SP's consolidated nominal net debt was £12,412 million (31 December 2018: £12,407 million). It comprised £12,147 million in bond issues, £1,455 million in other term debt, £345 million in index-linked derivative accretion and £5 million of additional lease liability post transition to IFRS 16. This was offset by £1,540 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,055 million in senior net debt and £1,357 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 December 2019 was 3.41% (31 December 2018: 3.63%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 31 December 2019 was 4.75% (31 December 2018: 5.40%). The reduction in the average cost of debt since the end of 2018 is mainly due to:

- a) Recent financing activities at a lower cost.
- b) Falling RPI inflation, which reduced index-linked swap accretion.

The average life of Heathrow SP's gross debt as at 31 December 2019 was 11.5 years (31 December 2018: 12 years).

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

The accounting value of Heathrow SP's net debt was £12,684 million at 31 December 2019 (31 December 2018: £12,158 million). This includes £1,540 million of cash and cash equivalents and term deposits, and £384 million lease liabilities as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs until October 2021. This includes forecast capital investment (including projected expansion related investments as per our investor report published on 20 December 2019), debt service costs, debt maturities and distributions. This liquidity position takes into account £3.7 billion in undrawn loan facilities, bonds and term debt to be drawn as well as cash resources at 31 December 2019 together with expected operating cash flow over the period.

Financial ratios

Heathrow SP and Heathrow Finance continue to operate comfortably within required financial ratios. Gearing ratios are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ("RAB").

At 31 December 2019, Heathrow's RAB was £16,598 million (31 December 2018: £16,200 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 66.6% and 74.8% respectively (31 December 2018: 68.2% and 76.6% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 86.5% (31 December 2018: 86.3%) with a covenant of 92.5%. The covenant at Heathrow Finance changed earlier in the year from 90% to 92.5% due to the redemption of the 2019 notes at Heathrow Finance. Lower gearing ratios at Class A and Class B reflect some debt reallocation between the ring-fenced group, Heathrow SP, and Heathrow Finance as we build toward expansion. To complement this first step and deliver our commitment to maintain our existing investment grade ratings, we expect our existing cautious approach to balance sheet management to further focus on cash-flow driven metrics.

Pension scheme

We operate a defined-benefit pension scheme (the BAA Pension Scheme), which closed to new members in June 2008. At 31 December 2019, the defined benefit pension scheme, as measured under IAS 19, was funded at 100.8% (2018: 100.7%). This translated into a surplus of £33 million (2018: £28 million surplus). The £5 million increase in the surplus in the 12 months is primarily due to actuarial losses of £17 million, attributable to a decrease in the net discount rate of 0.90% over the 12 months and offset by contributions in excess of current service cost of £22 million. At 31 December 2019, we contributed £47 million (2018: £48 million) into the defined-benefit pension scheme including £23 million (2018: £23 million) in deficit-repair contributions. Management believes that the scheme has no significant plan-specific or concentration risks.

The triennial valuation (as at 30 September 2018) has been completed and agreed by the Trustees of the scheme and LHR Airports Limited, setting out the contributions needed to cover the costs of the benefits that active members will build up in the future and additional cash contributions from Heathrow to make up the shortfall between liabilities calculated on a technical provisions basis and assets at that date. Cash contributions of £20 million per year from 1 October 2019 (£23 million per year before 1 October 2019) are expected to eliminate the shortfall within four years.

Javier Echave
Chief Financial Officer
25 February 2020

Image page (Change image)

Our approach to capital allocation

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

Our primary sources of capital are;

1. equity investment from our shareholders,
2. debt provided by third parties, and
3. cash generated from our operations.

Decisions related to the efficient deployment of capital consider the following;

1. retaining a strong balance sheet,
2. maintaining investment in the business, and
3. providing our ultimate shareholders with a fair return on their investment

Retaining a strong balance sheet

We generate high quality operating cash flows. As a result, we have good liquidity and have been able to maintain a positive net current asset position.

We seek to ensure that we continue to maintain a strong balance sheet, so that we can comply with debt covenant requirements, regulatory restrictions and respond to economic risks in the long-term.

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

Maintaining our investment in the business

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

Our stakeholders benefit from the investment into the UK's only hub airport. We submitted our Initial Business Plan to the CAA in December 2019 which describes our plans to deliver further investments to improve customer service, increase efficiency, and expand the airport in a sustainable way.

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

Proposed future investment and consideration of the ability to access suitable funds are monitored and managed through Heathrow's short-term Management Business Plan and its longer term Initial Business Plan and investments are dependent on reaching satisfactory regulatory terms with our regulator.

Providing the Group's ultimate shareholders with a fair return on their investment.

To access equity investment we are required to offer a fair return to shareholders. Where we have met our balance sheet requirements and have concluded we have suitable capital to meet our investment plans, the Directors seek to provide shareholders with a fair return through a dividend payment while delivering our commitment to maintain our current investment grade credit rating.

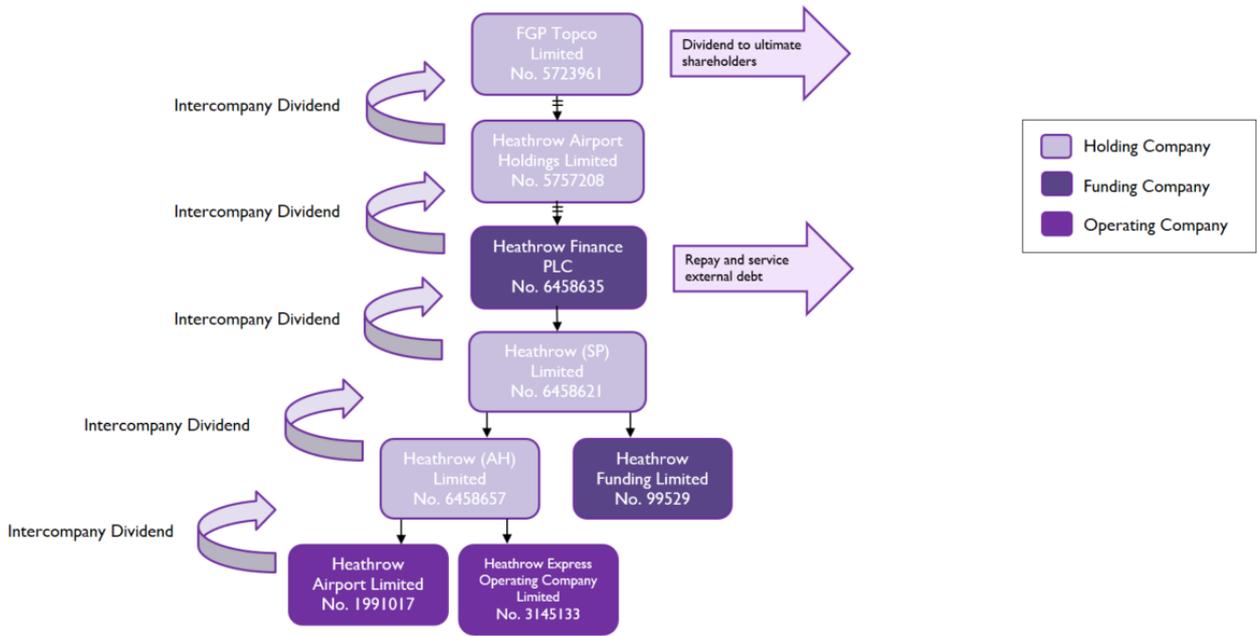
At times of significant investment, the Directors may seek additional capital from its shareholders. To obtain the capital, the Directors are required to demonstrate that they can continue to provide a fair future return in exchange for this investment.

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

Dividends are paid up through the structure of the Heathrow group of companies to fund dividends to the Group's ultimate shareholders and to repay and service external debt at the Group's holding companies. The flow of dividends through the Heathrow group of companies is illustrated in the simplified diagram on the opposite page.

Dividends of £480 million (2018: £485 million) were paid to Heathrow Finance Plc during the year. These were used to fund dividends of £500 million (2018: £500 million) to Heathrow's ultimate shareholders.

Dividend flows for the Heathrow group of companies



Broken arrow: Structure has been simplified for ease of reference, additional companies exist between these companies.

Our approach to taxation

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

Our operations, whilst large, are conducted entirely from the UK with no overseas operations. Accordingly, Heathrow pays a range of UK taxes, such as corporation tax, employment taxes and stamp-duty land tax, and it is one of the biggest business rates payers in the country, paying c£1 billion into the public purse over the past decade.

Heathrow operates not only within the UK's tax laws, but also within the spirit of them. All profits are subject to UK corporation tax, and no funds are routed through tax havens. Heathrow has no investments outside the UK that are not subject to UK tax.

Total tax contribution

The Group's total cash tax contribution for taxes borne during the period ended 31 December 2019 was £271.0m (2018: £240.1m). This contribution was made up of a range of UK taxes as illustrated below.

Tax cash contribution by type



Chaos to add m to bottom two numbers.

The Group also collected taxes of £89.8m (2018: £83.5m) and paid these over to HMRC, such as PAYE on employee salaries

Approach to risk management and governance

Heathrow's tax strategy was approved by the H AHL Board¹ in October 2019. Heathrow's tax strategy confirms:

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

¹ The H AHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 78.

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

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

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

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

Attitude towards tax planning

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

Accepted level of risk

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

Approach to HM Revenue & Customs (HMRC)

Heathrow seeks to have an open and transparent relationship with HMRC, creating and maintaining mutual trust.

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

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

Our approach to risk management

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

The Heathrow Risk and Assurance Management system (HRAM) 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 we face and to monitor upcoming and emerging risks. The HRAM provides guidance on how risks should be identified, mitigated, reviewed and reported within Heathrow.

Over the past year we have sought to improve the HRAM, and we will continue to improve our risk processes in 2020. These enhancements build 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. In particular an ongoing process of bottom-up reviews with each of the Heathrow business functions has been taking place during 2019 and will continue into 2020. These reviews identify new and emerging risks which are then documented in each of the function's risk registers. In addition to bottom-up reviews, principal risks have been identified at a Group level ensuring a comprehensive top-down and bottom-up approach to risk identification.

The HAML Board¹ has overall responsibility for the HRAM framework, establishing the Group's risk appetite and for reviewing the effectiveness of the risk response system. There are two HAML Board¹ sub committees which are responsible for risk: the Audit Committee, which reviews the effectiveness of systems for internal financial 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.

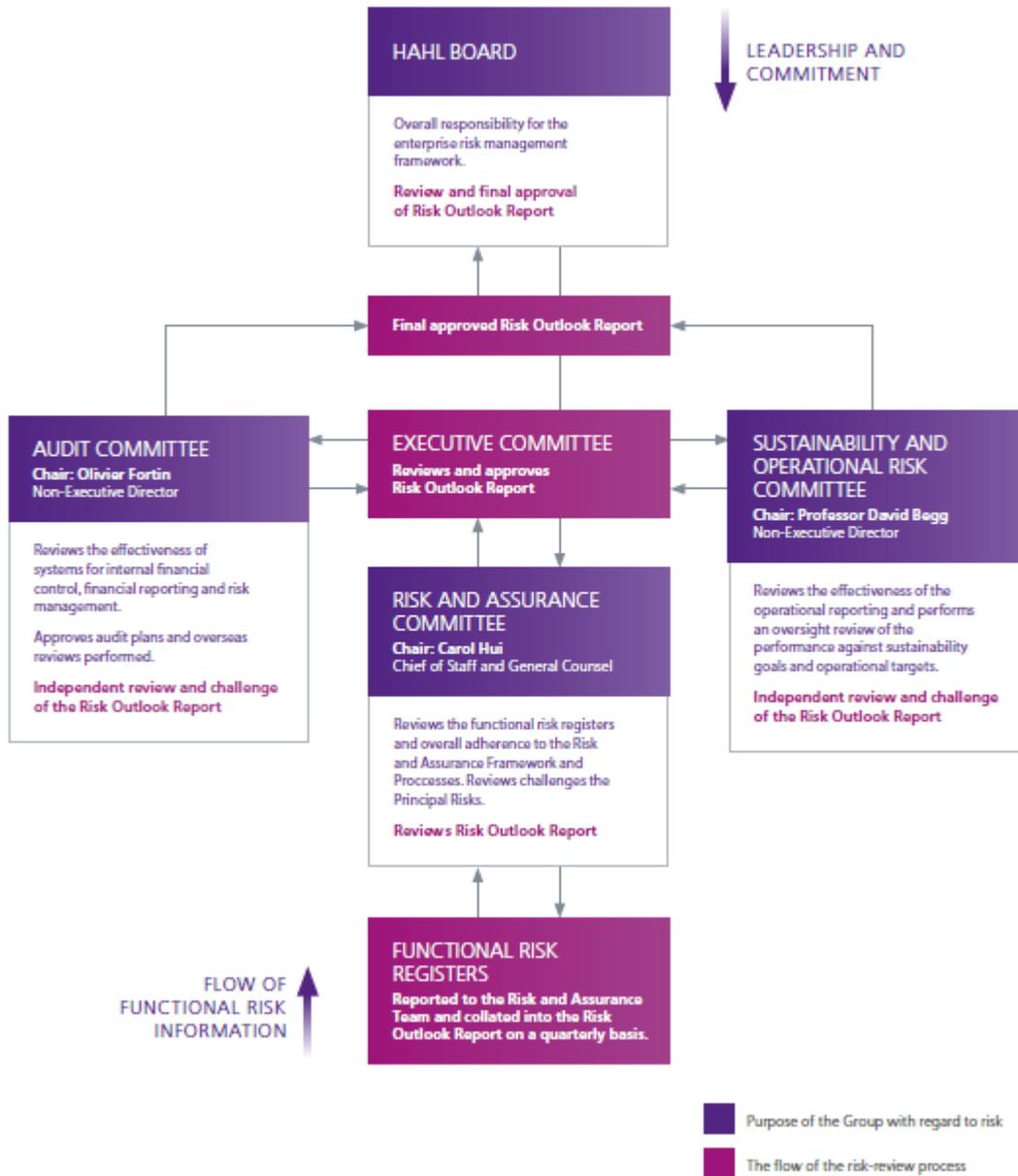
Risks identified by each of Heathrow's business functions are formally reported to the central Risk and Assurance Team on a quarterly basis by each function's 'risk champion'. Risks are analysed and evaluated to assess the residual risk, i.e. the risk after mitigating actions and controls. The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee. 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 report is then reviewed and approved by the HAML Board¹ on a quarterly basis.

A Principal Risk is a risk that has been identified by the HAML Board¹, 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.

¹ The HAML Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 78.

RISK MANAGEMENT



Our principal risks

The risks outlined in the below table are the principal strategic, corporate and operational risks identified during the year. This is a current point-in-time assessment of the risk profile that the Group faces as at 25 February 2020. As the risk environment evolves these risks are being constantly reviewed and updated.

Principal risk	Change in risk/ impact	Risk mitigation strategy	Link to strategic priorities
Climate Change & Carbon Targets			
<p>Climate-related risk has been split into two areas:</p> <ol style="list-style-type: none"> Physical risks – Heathrow’s operational resilience to the impact of climate change; and Transitional risks – the inability to meet our obligations as a responsible business regarding our own and UK/Global Carbon targets which could result in fines, reputational damage and negatively impact expansion plans. <p>These risks are discussed further in the “TCFD” section on page 67.</p>	Increased	<p>Sustainability has been embedded into all governance structures within Heathrow. Proactive environmental management systems and employee training programmes occur within all of our operations which set clear environmental strategies and resource conservation initiatives.</p> <p>We have launched Heathrow 2.0 and work closely across functions to ensure sustainable growth is achieved. We are reducing carbon emissions that we control, and our airport operations have become carbon-neutral. We are working towards achieving zero-carbon airport infrastructure by the mid 2030s, while working with the aviation industry to reach net-zero emissions from all flights departing the UK by 2050.</p>	  
A Safe and Secure Operating Environment			
<p>We have a statutory and moral responsibility to ensure that we safeguard the welfare and safety of our people, business partners and the public who may be affected by our activities.</p> <p>Failure to operate a safe environment risks damage to the health and wellbeing of a stakeholder, operational disruption, inconvenience to passengers and long-term damage to our reputation.</p> <p>The UK threat level is substantial. We are responsible for ensuring that our assets, infrastructure, human and electronic systems and processes meet requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers.</p>	Stable	<p>Our safety management system includes risk assessment processes for all activities that have significant risk and ensures proportionate control measures are used. Governance, led by our senior management teams, and assurance processes are used to ensure that controls around health and safety risks remain effective, and continuous improvement is encouraged.</p> <p>In the current year our safety improvement team has initiated a new ‘4 pillar’ safety plan which is designed to improve the fundamental building blocks of a safe operating environment. The overall Operational Health and Safety Policy has also been updated and improved.</p> <p>We work with government agencies to ensure security procedures are appropriate and mitigate evolving threats. Procedures are subject to review through the internal controls mechanism and via independent scrutiny from the CAA.</p> <p>Post year end the emergence and spread of the coronavirus is a new risk. We are carefully monitoring developments to understand the potential risks to our business and stakeholders. We will take suitable mitigating actions where they are available and provide further updates to our stakeholders as the situation develops. Trading updates can be found on our website as part of our annual outlook communication, quarterly results and semi-annual investor reports.</p>	 
Ability to Access Finance			
<p>We need to continue to be able to access finance to fund our current operations and future expansion plans.</p>	Stable	<p>We produce long-term forecasts which include consideration of significant downside risk to enable our management to conclude that covenant terms are likely to be met, and that we have the ability to access additional future finance as required.</p> <p>We have invested in a suitably skilled Treasury and Investment team who have robust procedures in place to ensure that the best quality investment decisions are made, and that investments can be appropriately financed.</p> <p>Realisation of Principal and other risks could deteriorate quality of our credit rating and increase this risk.</p>	  
Enable Capacity – Airspace and Surface Access			
<p>To enable growth, changes to airspace capacity are required to be granted. External stakeholders that influence this process include: residents, government and external lobbying bodies. In addition, to enable the desired growth, access to the airport must be increased in a sustainable way.</p> <p>There is a risk that changes to airspace capacity are not granted and that demands for surface access cannot be met. Inability to meet Surface Access thresholds set in the ANPS would mean an inability to release ATMs under ‘Environmentally Managed Growth’ framework.</p>	Increased	<p>The potential capacity restraints are a key priority within the expansion and commercial functions which have dedicated teams, with robust workstreams, working directly with key stakeholders to develop proposals and strategies to increase capacity.</p> <p>Delay in the delivery of surface access and airspace changes could defer or reduce the release of ATMs and reduce the ability to monetise the benefits of expanded capacity.</p>	   
Information Security			
<p>Information security, primarily at risk of malicious cyber-attack is a continued risk given the size and breadth of our network and operating environment.</p>	Increased	<p>We are implementing an improved cyber security programme to comply with ISO 27001 Information Security. Mandatory training has been rolled out, and multiple awareness campaigns have been initiated which will continue throughout 2020.</p>	 

Principal risk	Change in risk/ impact	Risk mitigation strategy	Link to strategic priorities
Regulation Requirements			
<p>We are currently subject to economic regulatory review.</p> <p>Changes to economic regulation could materially impact the performance of the business.</p> <p>Failure to comply with laws and regulations could result in loss of licence, penalties, claims and litigation, reputational damage and loss of stakeholder confidence.</p>	Increased	<p>The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated regulatory team which ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and HAHL Board¹ on regulatory matters.</p> <p>The regulatory framework requires formal engagement with airline customers. All airlines are invited to be represented on engagement forums – e.g. joint steering groups. In addition, key stakeholders are engaged on a joint planning basis which provide the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood.</p> <p>It has been concluded expansion is probable and therefore it is appropriate to have recognised £450m of spend to date as an asset in the course of construction, current spending plans forecast the investment will continue growing in 2020 to c£1bn. There is regulatory uncertainty in the short term due to an upcoming decision from the CAA on the proposed regulatory framework and completion of a judicial review of the Airports National Policy Statement. If as a result of either of these events, expansion was reassessed as being no longer considered probable, expansion related capital investment would be required to be impaired and expensed to the income statement.</p>	
Obtaining a Development Consent Order			
<p>We are operating our two runways at close to full capacity. Failure to secure the necessary Development Consent Order for the third runway could lead to increased congestion, passenger delay and lack of opportunity for the UK.</p>	Increased	<p>We have put in place a robust process to ensure that we comply with the planning process. Extensive stakeholder surveys take place to ensure that we listen and respond to our communities' and stakeholders' needs and concerns. We remain of the view that a robust process was applied to the designation of the Airports National Policy Statement, including the extensive evidence gathered by the independent Airports Commission, multiple rounds of public consultation and the overwhelming vote in Parliament. We will continue to communicate externally the benefits of a third runway and sustainable growth at Heathrow for the whole of the UK.</p> <p>The Court of Appeal judgement is awaited on the current judicial review proceedings against the Secretary of State for Transport relating to the Government's decision to designate the Airports National Policy Statement. If the ANPS is set aside in the event of an adverse court judgement against the Secretary of State, and the likelihood of expansion occurring was no longer probable, up to £450 million of the capital expenditure spent as at 31 December 2019 would be required to be impaired and expensed to the income statement.</p>	
External Change and Innovation			
<p>The technological world is constantly changing; new innovations have changed the way consumers do business.</p> <p>Our stakeholders are impacted by such innovations and there is a risk we do not evolve our proposition to meet new demands.</p>	Stable	<p>We review external markets and innovation initiatives to ensure we understand their impact, mitigate the risk and embrace change, working alongside our stakeholders as required,</p> <p>Emerging risks from external change are also included in our Executive Team's review of emerging risks as part of the risk-management process.</p>	
Political environment			
<p>We, particularly our expansion of the airport, is reliant on political support.</p> <p>Changes to the government, and therefore government priorities, can impact material decisions that are taken by us.</p> <p>The UK referendum decision on Brexit has the potential to impact airline operations which may cause disruption to our passengers, impact immigration, cargo operations, our supply-chain, and our people.</p>	Stable	<p>We continue to make a strong case for Heathrow's place in aviation and the wider economy and the part it plays in Global Britain, and we explain the benefits that expansion will bring. Whilst a change in the government's focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary.</p> <p>We have established a cross-functional Brexit team, reporting to the Executive Committee and HAHL Board¹, which has implemented a structured approach to the identification and management of all risks related to Brexit.</p> <p>At midnight on 31 January 2020, the UK formally left the EU and the withdrawal agreement came into force. From 1 February 2020, the UK entered a transition period until 31 December 2020 to negotiate trade and other areas with the EU. During this transition period, travel arrangements will continue as normal.</p> <p>We have made preparations to ensure the continued safe and secure operation for passengers with a plan jointly created with stakeholders to deliver a predictable and appropriate passenger experience which minimises the pre and post Brexit impacts.</p>	
Ineffective Organisation – Systems and People			
<p>Systems - We are constantly adapting to our internal and external requirements. As we continue to grow, existing systems and processes become unsuitable and need to evolve to meet the needs of our business.</p> <p>People - We rely on our people to ensure that we operate effectively. External and Internal requirements put pressure on colleagues and, during 2019, there was the additional risk of a threat of industrial action.</p>	Increased	<p>Systems - We continuously review systems and processes to ensure they meet the needs of our business. Where benefits exceed the cost, we invest in new systems. In the current year we have launched a project to upgrade our financial system to support working in a simpler, easier, more agile and cost-effective way.</p> <p>People - We continue to invest in our people and have a strategy to ensure the development of talent. Policies are in place to engage and motivate our colleagues so they are excited and challenged by their work environment and accountable and compliant with internal governance, policies and procedures. We provide great career opportunities, development and training, retaining talent and knowledge and preventing single points of failure. We were pleased that unions recently accepted a revised pay deal.</p>	
Competition			
<p>We compete against other airports both within the UK and across the world for passengers; some make marginal choices, particularly connecting passengers, about which route to fly. We are also in competition against other business in the UK for finite resources, infrastructure development potential and political will; all of which will be required to successfully expand. With expansion, consideration continues to be given to third party proposals to build and/or operate parts of the airport infrastructure.</p>	Increased	<p>As we remain under pressure to stay affordable, our commercial strategies are important in retaining key passenger groups. Having a structure to ensure ease of access to reasonably priced public transport routes in and out of the airport will also be important.</p> <p>To build and maintain the coalition of support for our expansion, we must emphasise our economic importance to the UK and demonstrate that our expansion is compatible with the UK's climate change policy.</p> <p>When considering any third party proposals we will work with relevant authorities, and independently, to ensure scrutiny. Our primary focus is to ensure there would be no degradation to the experience of our passengers and colleagues and that continuity of safe, secure and efficient airport operations is maintained in the interests of all air transport users, whilst allowing the timely privately financed delivery of expansion in compliance with all ANPS requirements.</p> <p>We will seek assurance that due process is followed by any such third party, with an equivalent level of rigour, independent scrutiny, comprehensive consultation and constructive engagement as has been the case with our expansion programme.</p>	

TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES (“TCFD”)

In June 2017, the Financial Stability Board released its final report on the recommendations of the Task Force on Climate-related Financial Disclosures. We recognise the importance of these disclosures and are committed to implementing the recommendations in full.

We have included information in various parts of this report relating to how we are managing our climate impact and how our business is evolving in response to the risks we see arising from climate change.

We are a member of the Prince of Wales' Accounting for Sustainability Project (A4S) and we have adopted the A4S maturity criteria to assess and benchmark our progress in implementing the TCFD recommendations. We have achieved an 'intermediate level' of maturity in our first year and will aim to apply all of the recommendations of the Task Force in our 2020 report. We will continue to refine our approach thereafter as our understanding of the financial risks and opportunities of climate change become clearer.

The table on page 66 shows how our disclosures map against the TCFD recommendations and where relevant information can be found in this report.

In partnership with the Cambridge University Institute of Sustainable Leadership, we are funding a research fellow who will undertake world-leading research on climate-risk scenario analysis. The research project is focused on the nexus of physical and transition risk and the findings will help to improve both the aviation industry's understanding, and its ability to assess, the risks that climate change will bring to aviation and airports.

Governance

Climate change poses a risk to our business and it is a standing item on the HAML Board's¹ agenda.

The HAML Board¹ receives monthly updates on climate strategy from the Sustainability and Environment Director, and climate change is included as an agenda item at Board and Executive Strategy days.

The HAML Board¹ reviews principal risks that have been reviewed by the Executive Committee, Sustainability and Operational Risk Committee and Risk and Assurance Committee.

Climate change is also a standing agenda item at the Sustainability and Operational Risk Committee, a sub-committee of the HAML Board¹ and chaired by an Independent Non-Executive Director. Its members include the Chief Executive Officer and three shareholder Non-Executive Directors. Its responsibilities include:

- Reviewing Heathrow's policies, conduct, performance and risk-management approach against sustainability goals and operational activities.
- Reviewing and challenging the performance and conduct of Heathrow relating to operational risks and the delivery of sustainability goals.
- Monitoring and challenging the appropriateness of sustainability and operational risk-assurance strategies and plans, the execution and results of such plans, and relevant communications.

Strategy

One of our four strategic priorities is Sustainable Growth and our Heathrow 2.0 sustainability plan, launched in 2017, sets out how we will deliver this priority. Heathrow 2.0 is integrated within our overall business strategy and business plan. More information is available in the 'Our commitment to sustainable growth' section of this report. The full Heathrow 2.0 plan is available at <https://www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy>.

Climate change is a significant sustainability issue for aviation and therefore it is a theme that runs throughout Heathrow 2.0. We have committed to decarbonising our infrastructure and we are working towards becoming a zero-carbon airport by the mid 2030s. We are also taking a leading role in promoting a net-zero carbon target for the aviation industry, and supporting airlines, manufacturers and other stakeholders to decarbonise air travel.

We have summarised below the parts of the Heathrow 2.0 plan that address aspects of climate change:

- Objective 3 - Empowering our colleagues to deliver change
- Objective 5 - Addressing the challenges of vehicles and passenger transportation
- Objective 7 - Increasing UK access to Heathrow via sustainable means and addressing climate change adaptation
- Objective 9 - Reducing carbon emissions in our supply-chain and supplier adaptation to climate change
- Objective 10 – Tackling carbon emissions in our infrastructure and operating a zero-carbon airport before 2050
- Objective 11 - Tackling carbon emissions from aviation

Heathrow 2.0 covers our own business as well as the role we will play in driving change across the wider industry. It shows how we aim to go beyond mitigation and deliver positive impacts that enable us and those around us to thrive.

¹ The HAHB Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 78.

Disclosure recommendation	Section Reference	Page
Governance		
Describe the Board's oversight of climate-related risks and opportunities	Our commitment to sustainable growth How we manage our risks	30 60-61
Describe management's role in assessing and managing climate-related risks and opportunities	Our commitment to sustainable growth How we manage our risks	30 60-61
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term	TCFD	67-71
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Our commitment to sustainable growth TCFD	30 65
Describe the resilience of the organisation's strategy, taking into consideration different future climate scenarios, including a 2°C or lower scenario	TCFD	67-71
Metrics		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities	TCFD	66
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks	Our commitment to sustainable growth	42
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Our commitment to sustainable growth	38-43
Risk		
Describe the organisation's processes for identifying and assessing climate-related risks.	Our commitment to sustainable growth How we manage our risks	30 60-61
Describe the organisation's processes for managing climate-related risks	Our commitment to sustainable growth Our principal risks	30 62
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management	How we manage our risks	60-61

Metrics and targets

We have included a number of relevant carbon metrics in the sustainability review section on page 42. In addition, we disclose progress against our ten Heathrow 2.0 flagship goals. More detailed progress updates for individual goals and targets are available in our sustainability reports published on our website. The 2019 Sustainability Report will be published later in 2020.

We have publicly committed to setting a climate-science-aligned target using the Science Based Targets initiative (SBTi) criteria. We are currently developing carbon targets that are aligned to limiting temperature rises to 1.5 degrees. Our targets will be published in 2020.

Climate-related risks

Our assessment of climate related financial risks has been aligned to two climate-related scenarios as follows:

1. A 1.5°C scenario. This is the most optimistic outcome based on recent Intergovernmental Panel on Climate Change (IPCC) reports, which envisages a full and global transition to a low-carbon economy by 2100. In order to achieve this scenario, the global economy must achieve net-zero carbon emissions by 2050 according to the IPCC's analysis.
2. A 3.5°C scenario. This scenario is a projection of how much the world will be warmed by 2100 based on current trends and practices (if no further action is taken to mitigate climate change).

In the table below, we have summarised the climate related risks that could have a material effect on Heathrow along with our initial assessment of the relative significance of each risk to our business. Our assessment of physical risks under both 1.5°C and 3.5°C scenarios has been informed by our 'Climate Change Adaptation and Resilience report' available at www.heathrow.com/content/dam/heathrow/web/common/documents/company/heathrow-2-0-sustainability/further-reading/climate-change-adaptation-report-2016.pdf. More work is required to fully understand and assess each risk in detail. In the following pages we explain the risks, how they apply to Heathrow and what we are doing to mitigate the risks and their effects.

		1.5 Degree Scenario	3.5 Degree Scenario
Physical risks	Description	Inherent risk rating	Inherent risk rating
Property	Physical damage to Heathrow property due to extreme weather events	Lower	Mid
Operations	Increased operational costs and increased flight disruption	Lower	Higher
Network	Changes to profitability of flight routes and unfavourable changes to Heathrow network	Lower	Higher
Destinations	Change in demand for certain flight destinations due to a changing local climate.	Lower	Higher
Transition risks	Description	Inherent risk rating	Inherent risk rating
Technology	The adoption of new technologies and the increasing use of alternative fuels by airlines require investment in changes to current airport infrastructure	Mid	Mid
Market	Reduced demand for air travel due to changing customer sentiment. Increased competition from lower-carbon modes of transport	Higher	Higher
Carbon policy and regulations	Carbon policies, including taxes that will lead to increased ticket pricing; carbon caps, limiting airport growth	Higher	Higher
Reputation	Passengers and investors show a preference for airlines and airports with smaller climate impacts affecting market share and the cost of capital	Higher	Higher

Inherent risk rating	
Lower	Risk is unlikely to have a significant impact on the aviation sector or wider economy
Mid	Risk could have a measurable impact on the aviation industry or wider economy
Higher	Risk could have severe impacts on the industry or wider economy

Physical risks

Risk description	Aviation context	Considerations for Heathrow
<p>Property</p> <p>Our assets may be subject to damage in the event of extreme weather. Climate change could result in:</p> <ul style="list-style-type: none"> ▶ Increased risk of surface and/or structural failure. ▶ Impeded accessibility due to impacts on road and rail network; ▶ Increased risk of flooding and water quality impacts. ▶ Overheating of buildings and aircraft and an increased risk of fire on hot days. 	<ul style="list-style-type: none"> ▶ Predicted rises in mean temperatures could see a rise of up to 7.1°C in mean summer temperature and a 60% increase in annual heavy rainfall days. ▶ Both would require improvements in environmental risk management at a local level, particularly fire, flooding and water quality impacts. ▶ The cost of making these improvements would be higher under a 3.5°C scenario compared to a 1.5°C scenario, where current provisions are largely adequate. 	<ul style="list-style-type: none"> ▶ According to DEFRA data, Heathrow is in an area of low subsidence risk and is not particularly exposed to groundwater swells, also it is not coastal. These factors insulate it well from flood risk overall. ▶ APOC is an operational control centre set up in 2014 that allows Heathrow to respond rapidly to changing conditions enhancing preparedness.
<p>Operations</p> <ul style="list-style-type: none"> ▶ Increased frequency of extreme weather events, such as heavy rainfall and storms, could result in unfavourable conditions for the operation of aircraft and runways. These may result in delays and/or cancellations. ▶ Extreme weather events such as flooding or wind have the potential to cause damage to critical infrastructure, including the electricity network, roads and connecting rail transport. 	<ul style="list-style-type: none"> ▶ High winds, turbulence and a stronger jet stream could increase delays, maintenance requirements and fuel burn. ▶ Airlines have already noticed a material increase in cancellations and supply-chain disruptions due to more frequent hurricanes. 	<ul style="list-style-type: none"> ▶ The main risk to Heathrow is an increased operating cost to manage more frequent periods of disruption. Under a 3.5°C scenario the projected increased frequency of storms and hurricanes may present a material operational risk for long-haul flights departing from, or arriving at, Heathrow.

Physical risks

Risk description	Aviation context	Considerations for Heathrow
<p>Network</p> <ul style="list-style-type: none"> ▶ Climate change impacts may result in increased turbulence or unfavourable flying conditions that may affect the routing, attractiveness or viability of some flight paths. 	<ul style="list-style-type: none"> ▶ The global aviation network is complex and interconnected and changes to routing decisions cannot currently be predicted with any certainty. ▶ This risk is more impactful for airlines than airports, as they may have to consider alternative routes due to climate change factors. 	<ul style="list-style-type: none"> ▶ Network changes could affect Heathrow's route network, flight schedules and the duration of flights. ▶ There is potential for more routes to require transfers via hub airports such as Heathrow if weather patterns render some routes prohibitive, but this is unpredictable and difficult to quantify.
<p>Destinations</p> <ul style="list-style-type: none"> ▶ The long-term impacts of changing weather patterns may influence the attractiveness (and even existence) of certain destinations. ▶ Impacts, such as rising sea levels, changing temperatures, flooding, droughts, forest fires, heat waves and reduced snow cover in ski destinations could impact customer demand. ▶ Climate change could also make certain destinations more attractive or accessible to visitors, for example a longer summer season in some countries. 	<ul style="list-style-type: none"> ▶ In a 3.5°C scenario, many destinations become untenable or less attractive as travel destinations because they are exposed to a higher risk of extreme weather events, especially hurricanes. More broadly, this scenario is likely to involve significant challenges for the global economy and hence impacts on demand for aviation. ▶ A 1.5°C scenario would see comparatively minimal change in the makeup of destinations from today. 	<ul style="list-style-type: none"> ▶ Some Heathrow destinations may see fewer visitors as they suffer from the negative effects of climate-change. There may be an increase in travel to other destinations as the climate becomes warmer. ▶ The broad range of global destinations that Heathrow serves mitigates the impact of this risk to some degree.

Transition risks

Risk description	Aviation context	Considerations for Heathrow
<p>Technology</p> <ul style="list-style-type: none"> ▶ Companies may consider increasing the use of alternative/ sustainable fuels in order to reduce their impact on the climate requiring supply chain and infrastructure changes.. ▶ The development of electric aircraft technology is evolving and there is growing interest from airlines which may require investment in electrical infrastructure. 	<ul style="list-style-type: none"> ▶ The increasing use of sustainable aviation fuels by airlines will require supply-chain and infrastructure changes. Significant infrastructure changes at airports are not anticipated to increase the uptake of sustainable aviation fuels. Sustainable aviation fuels will require carefully considered policy support to overcome current production and price hurdles and avoid unintended consequences. ▶ There is currently limited but growing understanding of the infrastructure requirements to support the adoption of electric aircraft. ▶ It is assumed that the majority of the cost of technology transition will fall to airlines and aircraft manufacturers and will ultimately be paid by passengers. 	<ul style="list-style-type: none"> ▶ We will need to ensure that we are capable of quickly adapting to the evolving technological and commercial needs of airlines. ▶ Our approach to supporting decarbonisation of aviation addresses cleaner aircraft technology and sustainable fuels; including a review of potential infrastructure requirements and incentives for airlines.
<p>Market</p> <ul style="list-style-type: none"> ▶ Passengers may become more concerned about the environment and carbon emissions associated with flying. ▶ Passengers may start to prefer alternative forms of transportation. ▶ Passengers may choose to fly shorter distances, thereby affecting Heathrow's existing network. ▶ Some businesses are already adopting virtual meetings as an alternative communications method which may lessen the need for business travel. 	<ul style="list-style-type: none"> ▶ Although the impact on overall market demand is still limited, awareness of the 'flygskam'/flight shaming movement is growing as some consumers opt for more sustainable forms of transportation such as rail. ▶ Growth in this public sentiment may encourage regulators to target the industry with taxes and legislation. 	<ul style="list-style-type: none"> ▶ As a hub airport, Heathrow provides a substantial amount of long-haul connectivity which is not easily substituted by other modes of transport. ▶ However, rail is likely to provide an alternative to some domestic and short-haul journeys where good alternative services are available. ▶ There is an opportunity to differentiate our brand by showing leadership, innovation and action to mitigate climate impacts.

Transition risks

Risk description	Aviation context	Considerations for Heathrow
Carbon policy & regulation		
<ul style="list-style-type: none"> ▶ Governments often seek to address emissions through policies to price carbon, including emissions trading schemes. The cost of carbon emissions to private companies has continued to rise globally, especially in the EU. ▶ Over time, carbon prices are likely to rise, potentially significantly. This will stimulate the development of cleaner technologies and fuels but may also have an impact on demand for aviation. ▶ If UK and/or European policy moves significantly ahead of international approaches could lead to a sustained competitive disadvantage for UK aviation. 	<ul style="list-style-type: none"> ▶ Climate policy is a significant potential risk for the industry. ▶ Airlines face significant financial risk from carbon taxation and regulation which may impact their continued ability to operate profitably. ▶ If higher carbon prices are passed on to passengers, they have the potential to impact future demand for flights. ▶ Potential aviation demand management policies are being discussed in the UK and a number of countries in Europe. If not properly designed these policies could potentially have a significant impact on passenger demand without directly incentivising decarbonisation of the sector. 	<ul style="list-style-type: none"> ▶ Our local competitors are subject to the same carbon regulations, prices and frameworks. ▶ As part of the Airports National Policy Statement that supports expansion at Heathrow we are required to demonstrate that expansion would not result in a material increase in the UK's carbon emissions. ▶ A reduction in overall UK air-traffic due to carbon reduction efforts is considered more likely to affect markets that cater for domestic or short-haul flights, as journeys are more easily substituted by alternatives.
Reputation		
<ul style="list-style-type: none"> ▶ Increasing awareness about the role of air transportation in climate change is likely to lead to stakeholders becoming more concerned about environmental impacts of flying. They may demonstrate a greater preference for airports and airlines with smaller environmental impacts. ▶ Investors are increasingly embedding environmental, social and governance (ESG) considerations into investment decisions. This may affect the attractiveness of investments in more carbon-intensive industries, including air travel. 	<ul style="list-style-type: none"> ▶ Consumer behaviour is an opportunity as well as a risk; passengers could be attracted to specific airlines or airports if they establish a place in the market by demonstrating investment, innovation and action to mitigate climate impacts. 	<ul style="list-style-type: none"> ▶ ESG restrictions or criteria may lead to Heathrow becoming a less attractive investment and as a result may increase our cost of capital.

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 section 172 requires a director to have regard (amongst other matters) to:

- a. The likely consequences of any decisions in the long-term.
- b. The interests of the company's employees.
- c. The need to foster the company's business relationships with suppliers, customers and others.
- d. The impact of the company's operations on the community and environment.
- e. The desirability of the company maintaining a reputation for high standards of business conduct.
- f. The need to act fairly as between members of the company.

In discharging our section 172 duty we, the directors of the Company, have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's vision, purpose and values together with its strategic priorities, as shown in our Strategic Framework on page 23, 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 to the Executive Committee and then engage management in setting, approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the Board of Heathrow Airport Holdings Limited (the 'HAHL Board'). We ensure that when we are applying these group policies we have due regard to our fiduciary duties and responsibilities. The HAHL Board also reviews health and safety, financial and operational performance, legal and regulatory compliance, business strategy; key risks; stakeholder related matters; diversity and inclusivity; environmental matters; and corporate responsibility.

The Company's key stakeholders are its passengers, communities and the environment, colleagues, airlines, investors, suppliers and commercial partners and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions. While there are cases where the board itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both our stakeholders and the Heathrow Airport Holdings Limited Group (the 'HAHL Group') means that generally our stakeholder engagement best takes place at an operational or HAHL Group level. We find that, as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details of some of the engagement that takes place at an operational or HAHL Group level with the Company's stakeholders, so as to encourage the directors to understand the issues to which they must have regard, please see the HAHL stakeholder table on the following pages.

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

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

Key decision made by the directors of the Company

1) Capital Allocation

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 56 where we explain our long-term approach to allocating capital and the payment of dividends.

In 2019 the directors of the Company recommended dividend payments to Heathrow finance Plc of £480 million (2018: £485 million). 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 and the ongoing need for the business to support the safe and efficient operations over the long-term

2) Borrowings

As required, the directors of the Company review and approve commercial terms for borrowing. In approving terms, the directors seek to ensure that appropriate funds are available to continue to invest in airport services, at a minimal cost and for a suitable period of time.

Key decisions made by the HAHL Board

1) Colleague Relations Strategy

The HAHL Board reviewed Heathrow's people performance measures for 2018 and discussed and approved the Colleague relations strategy for 2019, which is a key part of Mojo, our number one business priority. The purpose of the Colleague relations strategy is to increase engagement levels by making improvements in the interests of the HAHL Groups' employees. The plans focused on three key areas; leadership, management capability and employee wellbeing. We have continued to roll out our leadership development programme 'leading for Sustainable growth' to all leaders in the HAHL Group. We have also developed a leadership framework with the aim for managers to use it as an upskilling tool to build management capability. We have developed a systematic approach to health and wellbeing which is regularly reviewed and endorsed by the Sustainability and Operational Risk Committee. In 2019 we set up an employee engagement forum to provide additional voice for colleagues to raise and discuss improvements with management. Feed-back from our colleagues has resulted in a number of improvements being made, which include modernising rest room facilities for our operational colleagues, dedicating more space to enable colleagues to meet regularly with management and the development of a new mobile application that allows colleague to book leave on the move and swap shifts.

2) Climate Strategy

The HAHL Board approved Heathrow's climate strategy, which would enable the launch of Heathrow's net zero plan in January 2020. The strategy means that Heathrow would be carbon neutral, in respect of its own infrastructure, from January 2020. This would be achieved through purchasing green gas and offsetting our very low remaining emissions through UK natural climate solutions. For Sustainable Alternative Fuels, we will advocate a combination of a fuel mandate and APD/landing charge discounts. For offsetting, we have launched a partnership with "CHOOOSE", one of a new generation of consumer-focused offsetting platforms. We want every passenger travelling through Heathrow to have the opportunity to offset, however we plan do this in a way that we can step back as airlines step in.

3) Regulatory Strategy & IBP

The HAHL Board approved Heathrow's Initial Business Plan for the 2020's, which shows how we will deliver the global connections that Britain needs in a way that is sustainable, affordable, deliverable and financeable. The real prize for consumers will be lower airfares achieved by introducing greater competition and choice between airlines. The plan also supports our airline customers' growing commitment to decarbonising and net-zero flight. The plan has been developed using consumer and stakeholder insights. Horizon, an online community of 3007 current and 601 potential Heathrow users, has been central to our engagement programme. The Consumer Challenge Board (CCB) has also helped shape our consumer engagement strategy and provided independent challenge on the use of our consumer research and engagement in our business planning. The CCB has challenged our research and engagement work programme, aspects of the research, how we have interpreted the results and how we are reflecting them in our plans. To date, we have completed approximately 30 additional separate pieces of research specifically focused on the development of the H7 business plan and Masterplan and in response feedback and challenges from the CCB. An example of such feedback that changed our approach is that to enhance our definition of vulnerability to go further than just mobility issues and the standard Passengers with Restricted Mobility (PRM) legislation. The CCB suggested we followed best practice from other sectors and helped us develop our new framework.

4) Expansion and Masterplan

The HAHL Board reviewed Heathrow's readiness to proceed through the M4 Masterplan gateway which formed the basis of our statutory Airport Expansion Consultation (AEC) held between June and September 2019. The M4 Masterplan also formed the basis of our Initial Business Plan for the 2020s, the purpose of which is outlined in Key Decision 3 above. The preferred Masterplan at this gateway was a detailed description and illustration of our proposed scheme and provided a greater level of detail on the expansion of Heathrow for our communities, the environment, our passengers, colleagues and airlines. As part of this review, the HAHL Board had oversight of our key AEC documentation, including our scheme development report (articulating how we arrived at the preferred Masterplan), construction proposals, future runway operations proposals, surface access proposals, earth growth proposals, and our economic development framework. In addition, the HAHL Board had oversight of our proposals for mitigating the effects of expansion, including our preliminary environmental information report, plans for compensation, property policies, and our environmentally managed growth framework. We received c.11,000 responses to our AEC which, together with stakeholder feedback, will be used to inform our M5 Masterplan gateway and Development Consent Order application towards the end of 2020.

5) Brexit Contingency Planning

The HAHL Board approved Heathrow's Brexit contingency planning, preparation and communication strategy. With each Brexit date, Heathrow made preparations for potential scenarios, including a no deal. Our planning engaged our colleagues from the EU, supporting applications for settled status. Our communication strategy kept our stakeholders and customers informed. Our plans included close engagement with local authorities for broader resilient preparedness, sharing our operational plans for assurance to our local communities and any environmental impacts. We will continue to engage closely with our colleagues, stakeholders and local authorities to maintain robust plans which incorporate changes as the negotiations progress. Our contingency plans will continue to be updated and reviewed by the HAHL Board in preparation for the next date as Parliament and the EU negotiate on the final deal.

The table below sets out the details of some of the engagement that takes place at an operational or HAML Group level with the Company's key stakeholders. Not all information is reported directly to the HAML Board and not all engagement takes place directly with the HAML Board. However, the output of this engagement informs business-level decisions, with an overview of developments and relevant feedback being reported to the HAML Board and/or its committees.

Why we engage	How we engage	Link to strategic priorities
Passengers		
<p>Understanding our passengers changing needs and behaviours helps us to achieve our vision to give passengers the best airport service in the world.</p>	<p>Passenger interactions at the airport and satisfaction surveys drive KPIs which measure how successful we are and provide feedback on the impact of our decisions.</p> <p>We use consumer research groups to engage and shape the key decisions we make.</p> <p>Horizon is an online community of 3007 current and 601 potential Heathrow users which can be used when making real time decisions.</p> <p>We use social media, our website, the Official Heathrow traveller blog, email communication's and the Heathrow App to communicate directly with our passengers.</p> <p>The Consumer Challenge Board (CCB). The CCB help shape our passenger engagement strategy by providing independent challenge on the use of our passenger research and engagement in our business planning.</p>	
Communities and the environment		
<p>Working with communities at local, regional and national levels enables us to deliver on the objectives of Heathrow 2.0, our sustainability leadership plan.</p>	<p>Heathrow Strategic Planning Group represents many of the local authorities and other public organisations responsible for planning the land use, transport, environment, economic development and sustainable development of the sub-region surrounding Heathrow Airport. It works proactively to shape proposals for expansion of the airport to ensure these are sustainably planned, maximise the benefits and minimise the impacts felt across the area.</p> <p>Local Focus Forum is a quarterly meeting that we host, made up of resident associations and local councillors from the villages bordering Heathrow, where we share information about pending developments and operational impacts that might affect the local area and give residents the opportunity to raise queries of concerns.</p> <p>Heathrow Community Noise Forum is a group made up of local councillors and residents from 12 boroughs around Heathrow affected by noise from the airport. It seeks members' inputs in the planning and communication of the modernisation of Heathrow's airspace.</p> <p>Heathrow Community Engagement Board is an independent body that has been established to give those who live, work and travel through Heathrow more influence over how the airport operates today and how it may grow in the future.</p> <p>Charity partnership with CARE International UK; The Duke of Edinburgh's Award programme; Heathrow Community Trust.</p> <p>We also use social media, our website, the Official Heathrow traveller blog, email communication's and the Heathrow App to communicate directly with our communities.</p> <p>Further information can also be found at https://www.heathrowexpansion.com/local-community.</p> <p>Further information on our engagement on the environment can be found in the sustainability section of this report from pages 30 to 47 and at https://www.heathrow.com/company/community-and-environment/heathrow-2-0/reports-and-further-reading.</p>	
Colleagues		
<p>We will only deliver our vision if we recruit and retain the best people and develop a flexible, motivated, efficient, diverse and engaged team. Engaged employees deliver excellent service.</p>	<p>The Colleague Engagement Forum allows colleagues from across the business at all levels can have their say and help make Heathrow a great place to work.</p> <p>The People Leadership Forum works with partners to create an agile, diverse, inclusive and skilled workforce that has access to quality careers, employment and training opportunities.</p> <p>Employee InPulse surveys help measure progress made with our engagement plans and make sure we're moving in the right direction.</p> <p>Our diversity networks help us promote an inclusive culture through events, fundraising and awareness campaigns. They include: Proud, our LGBT+ network; HAND, Heathrow Airport's Network for Disability; en-haNCE our culture and ethnicity network; and Altitude, our gender equality network.</p> <p>Heathrow Skills Taskforce advises us on the skills and training programmes we need to make Heathrow's expansion a success.</p> <p>We monitor Colleague safety through KPI reporting and take action to continuously improve the safety of our working environment.</p> <p>Heathrow has regular team updates, and briefings, the HUB intranet portal includes a CEO blog and other communications.</p>	

Why we engage	How we engage	Link to strategic priorities
Investors		
<p>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.</p>	<p>Shareholders controlling 10 per cent or more of the issued ordinary shares of FGP Topco Limited are entitled to appoint one Non-Executive Shareholder Director to the HAHL Board for every 10 per cent held.</p> <p>We provide quarterly financial updates, semi-annual investor reports and debt investor presentations.</p> <p>We provide an annual report and accounts, which include optional enhanced disclosures. We perform investor roadshows and make prospectus documents available. We have ongoing dialogue with current and potential investors.</p> <p>We have liaise with credit rating agencies to ensure we understand the impact of our strategic decisions on their assessment.</p> <p>We provide ESG reporting which integrates Heathrow 2.0 KPIs into our future financing plans.</p> <p>Further information can be found at our Heathrow corporate website https://www.heathrow.com/company/investor-centre.</p>	
Airlines		
<p>Airlines and their customers are at the heart of the Heathrow proposition. It is important that we understand their needs and deliver the right operating environment for our airlines.</p>	<p>Heathrow Leadership Group works collaboratively through a Joint Steering Board to improve the end-to-end passenger experience at Heathrow. The group comprises the Chief Executives of Heathrow, British Airways, Virgin Atlantic, NATS and the CAA. It meets quarterly under the Chairmanship of Heathrow's CEO.</p> <p>We engage formally with airlines throughout the year on key areas including: operational and passenger experience, the expansion of Heathrow and pricing and governance around capital spend. This is augmented with further bespoke engagement on a range of issues as an airline or as an airport community as is necessary.</p> <p>Quarterly joint executive meetings take place with customers.</p> <p>The CEO regularly visits major current and potential international airlines.</p>	
Suppliers and commercial partners		
<p>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.</p>	<p>The Working Together Charter is a foundation for building better relationships between Heathrow and our Suppliers with the purpose to support Heathrow and Supplier colleagues to work together and fulfil our vision to give passengers the best airport service in the world.</p> <p>Team Heathrow Annual Conference has become the premier gathering for our top strategic supply-chain partners and procurement professionals. This event allows us to showcase our success stories, network with peers and develop strategic partnerships.</p> <p>Heathrow Business Summits give participants the chance to meet and collaborate with Heathrow's key suppliers, regional SMEs, fellow Team Heathrow colleagues and retail partners across Heathrow.</p> <p>The Heathrow Sustainability Partnership is a group of companies representing all sectors at the airport all working hard to improve Heathrow's sustainability performance.</p> <p>The Clean Vehicles Partnership works with companies at Heathrow to reduce emissions from their fleet operations.</p>	
Regulator		
<p>Heathrow is subject to economic regulation by the Civil Aviation Authority (CAA), which is the independent aviation regulator in the UK, responsible for economic regulation, airspace policy, safety and consumer protection.</p>	<p>We meet regularly with the CAA to discuss all issues relating to the regulated elements of Heathrow.</p> <p>We respond to various CAA publications related to the economic regulation of the airport. This includes regulatory price control reviews and expansion related matters.</p> <p>As part of our licence we are required to publish various regulatory documents.</p> <p>Regulatory reporting through the Annual Regulatory Accounts.</p>	

Governance

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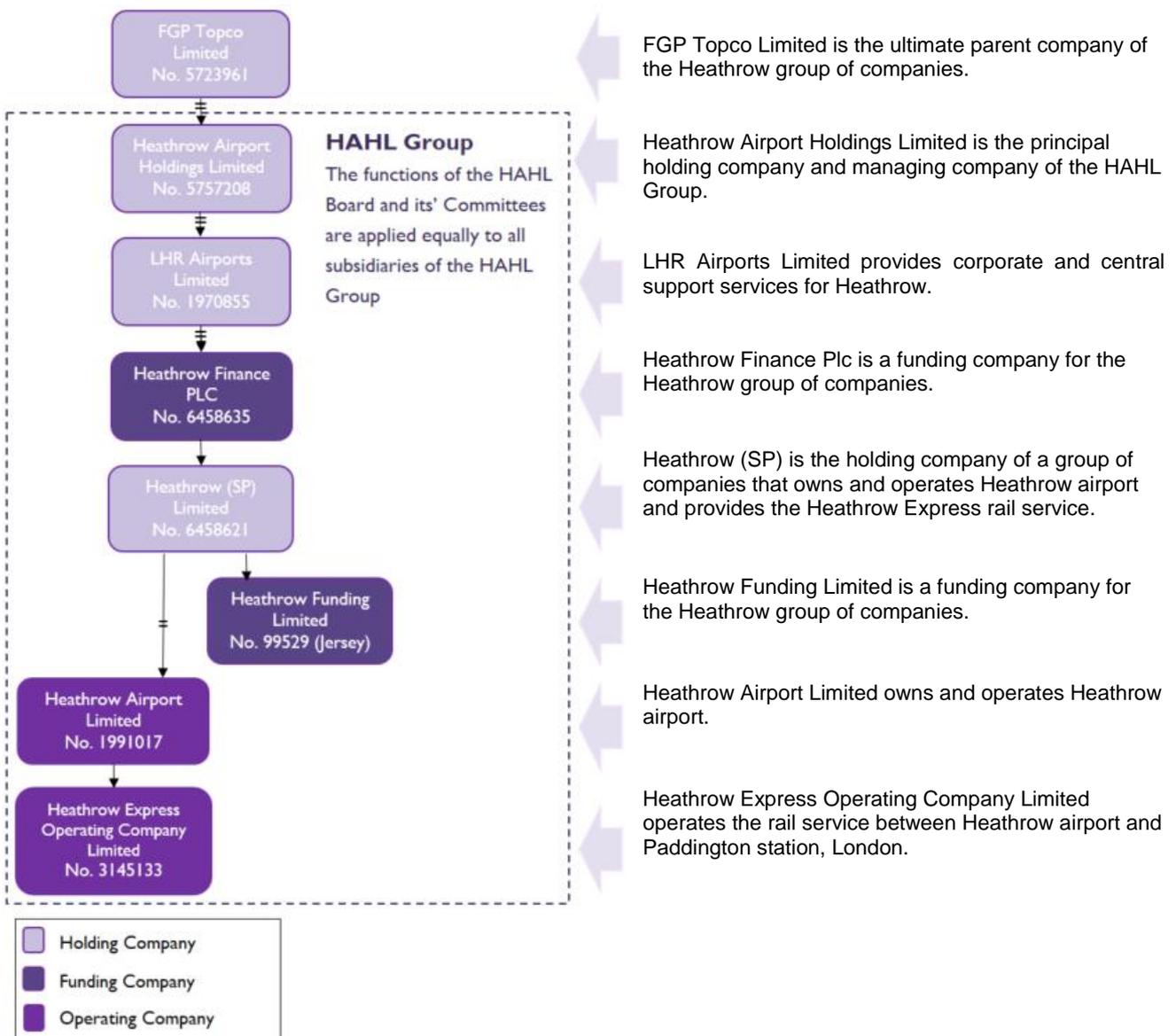
Group structure

Heathrow (SP) Limited (the 'Company' or 'Heathrow (SP)') is a holding company of a group of companies (the 'Group') that owns Heathrow Airport (Heathrow) and operates the Heathrow Express Rail Service. Heathrow (SP) is an indirect subsidiary of the Heathrow Airport Holdings Limited group (the 'HAHL Group').

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

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

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



Group structure

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 2019, are shown in the table below:

Shareholder	% held
Ferrovial 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 (11.20%) (an investment vehicle of GIC)	11.20%
Alinda QS Airports UK, LP (investment vehicle managed by Alinda Capital Partners)	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 certain governance procedures in the HAHL Group. Under the terms of the Shareholders' Agreement, each Shareholder, controlling 10 per cent or more of the issued ordinary shares of FGP Topco Limited, is entitled to appoint one director to the HAHL Board for every 10 per cent they hold. There are also a limited number of matters reserved for approval by the Shareholders. Although these matters are reserved to the Shareholders, the HAHL Board would expect to express a view to the Shareholders before any decisions were taken.

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

In 2008, a secured financing platform was put in place. As part of these arrangements, the Group entered into a Common Terms Agreement (CTA) with its debt investors. The CTA sets out the terms and conditions of the Group's borrowing and the ongoing management of its secured financing platform. The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the financing platform. The CTA restricts amendments to the Articles of Association of the companies in the Group without obtaining prior consent from the Security Trustee.

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

HAHL Board of Directors

Chairman, Executive Directors, Company Secretary

Lord Paul Deighton

Chairman

N

Appointed 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. He is now guiding Heathrow through its next phase of development to fulfil Heathrow's vision of giving passengers the best airport service in the world.

John Holland-Kaye

Chief Executive Officer

F S

Appointed July 2014

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

Javier Echave

Chief Financial Officer

F

Appointed November 2016

Javier joined Heathrow in January 2008 and was closely involved in establishing the current capital structure and positioning Heathrow as a strong credit in the financial markets. Over a four-year period up to 2016, as Finance Director for Operations and Performance, Javier played a key role in the delivery of a cost-efficiency programme and in ensuring a rigorous appraisal of a multi-billion capital investment plan.

Carol Hui

Chief of Staff and General Counsel

Appointed Company Secretary April 2009

Carol was appointed Chief of Staff from 1 January 2017. She is responsible for legal affairs, business assurance, external and internal communications, sustainability and environment. She joined Heathrow in March 2009 as General Counsel. Carol has extensive senior executive experience in transport, oil and gas and infrastructure industries and was a corporate finance lawyer at Slaughter and May. She has received numerous awards in her career including from the Financial Times, The Lawyer, Sinopro and PwC.

HAHL Board of Directors

Independent Non-Executive Directors

Professor David Begg

Independent Non-Executive Director **S**

Appointed November 2010

David has extensive expertise in the transport sector and is a Non-Executive Board Member of FirstGroup; Chairman of the Northern Way Transport Compact.; Chairman of the British Chamber of Commerce Infrastructure Commission, Chief Executive of Portobello Partnership, a member of the High Speed Rail 2 External Challenge Group; Advisor to the Greater Manchester Transport Executive; publisher and contributor at the Transport Times magazine; and Visiting Professor in Sustainable Transport at Plymouth University. He was previously Chairman of the Commission for Integrated Transport, an independent advisory board to the Government, and Chairman of Tube Lines, the company responsible for maintenance and upgrade work on three London Underground lines.

Rt. Hon Ruth Kelly

Independent Non-Executive Director **A**

Appointed April 2019

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

Rachel Lomax

Independent Non-Executive Director **N R**

Appointed November 2010

Rachel has 40 years' experience in policy-making at the heart of the British economy. Rachel served as Deputy Governor of the Bank of England from 2003 until 2008. Before joining the Bank, she was Permanent Secretary of three government departments, including the Department of Work and Pensions and the Welsh Office as well as the Department for Transport. Her earlier career was spent at the Treasury, the Cabinet Office and the World Bank. Rachel was also a Non-Executive Director of HSBC. She is currently Acting Chair of the British Council and is a Non-Executive Director of Serco. Rachel stepped down from the HAHL Board on 23 February 2020, after having served for nine and a half years on the Board.

Committee key

- Committee Chair
- Ⓐ Audit Committee
- Ⓝ Nominations Committee
- Ⓕ Finance Committee
- Ⓢ Sustainability and Operational Risk Committee
- Ⓡ Remuneration Committee

HAHL Board of Directors

Non-Executive Shareholder Directors

His Excellency Akbar Al Baker

Non-Executive Shareholder Director A N F S

Appointed January 2013

Akbar has been the Chief Executive Officer of Qatar Airways since 1997. He also led the development of the multi-billion dollar Hamad International Airport, which opened in April 2014. Mr Al Baker is a graduate of Commerce and Economics, and holds a private pilot's licence. He is also CEO of several divisions of Qatar's national airline – being Qatar Airways Holidays, Qatar Aviation Services, Qatar Duty Free Company, Doha International Airport, Qatar Distribution Company, Qatar Executive, Oryx Rotana Hotel and Qatar Aircraft Catering Company.

Alternate: Ali Bouzarif (appointed January 2018)

Ahmed Al-Hammadi

Non-Executive Shareholder Director F R

Appointed February 2018

Ahmed is Head of the Active Investments department for the Qatar Investment Authority. He oversees QIA's direct sector teams as well as fund investments in the Equity, Fixed Income, Hedge Funds, Private Equity and Real Estate asset classes. Prior to joining QIA, Ahmed worked at EFG-Hermes, a regional asset manager and, before that, at consulting firm Booz & Co. advising financial-services clients on strategy, private-equity investment opportunities, and organisation structures. Ahmed is a graduate of the Wharton School at the University of Pennsylvania and has obtained his MBA from the Harvard Business School.

Alternate: Deven Karnik (appointed September 2014)

Stuart Baldwin

Non-Executive Shareholder Director N F R

Appointed 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. He is currently a director at Terminal Investment Limited Sarl and Raffles Infra Holdings.

Alternate: Alexander Leonard (appointed April 2018 and resigned December 2019). Kamil Burganov (appointed January 2020)

Chris Beale

Non-Executive Shareholder Director F

Appointed October 2011

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

Alternate: Sam Coxe (appointed November 2012)

Maria Casero

Non-Executive Shareholder Director

Appointed January 2019

Maria is People, Communications and Asset Management director for Ferrovial Airports and Ferrovial Power Infrastructure. She joined the Group in 2008. Maria has more than 30 years' experience in the aviation industry in Europe, Latin America and the United States. Before joining Ferrovial, she was the Human Resources and International Communications Director at Carlson Wagonlit Spain. Between 1992 and 2006, she held various leadership positions in British Airways. She began her professional career as an Accounting Manager at American Airlines.

Alternate: Gonzalo Velasco Zabalza (appointed February 2017); Ignacio Aitor Garcia Bilbao and Ignacio Madrideojés Fernández (appointed January 2020).

HAHL Board of Directors

Non-Executive Shareholder Directors

Olivier Fortin

Non-Executive Shareholder Director A F S

Appointed October 2015

Olivier is a director in the CDPQ team based in London and is an experienced asset manager and infrastructure investor in the UK and Continental Europe. Previously he was working with AMP Capital, and prior to that with MAp Airports and Macquarie Capital Funds. He has been involved with Brussels, Copenhagen, Bristol, Rome and Newcastle airports. He also sits on the supervisory board of Budapest Airport.

Jorge Gil

Non-Executive Shareholder Director A N F S R

Appointed December 2012

Jorge is the Chief Executive Officer Ferrovial Aeropuertos. Jorge joined the Ferrovial group in 2001, as the Structured Finance Director (until 2007) and then the Corporate and Business Development Director (2007-2010) of Cintra. He was a member of the Executive Committee of Cintra and a board member of various companies (407-ETR, Chicago Skyway, Indiana Toll Road and SH-130). In November 2010 he joined the financial department of Ferrovial as Capital Markets and Finance Director of Ferrovial, with responsibility for the financing and treasury of the Group and for the Investor Relations Department. Jorge began his career in the banking industry at The Chase Manhattan Bank in Spain, working in Corporate Finance and M&A.

Alternate: Inigo Meiras (appointed December 2012 and resigned September 2019). Ignacio Aitor Garcia Bilbao, Gonzalo Velasco Zabalza and Ignacio Madrideo Fernández (appointed January 2020).

Ernesto López Mozo

Non-Executive Shareholder Director A F R

Appointed October 2009

Ernesto is Ferrovial's Chief Financial Officer. Ernesto joined Ferrovial from Telefonica, having previously held positions at JP Morgan and Santander.

Alternate: Ignacio Aitor Garcia Bilbao (appointed March 2013); Ignacio Madrideo Fernández and Gonzalo Velasco Zabalza (appointed January 2020).

Mike Powell

Non-Executive Shareholder Director F N

Appointed November 2014

Mike is Head of Private Markets Group of USS Investment Management (USSIM), which is the wholly owned investment management subsidiary of the Universities Superannuation Scheme (USS). USSL is the corporate trustee of one of the largest private sector pension funds in the UK with assets under management of £68 billion as at 31 March 2019 and over 400,000 members across more than 350 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 a member of the USSIM Executive Committee and Investment Policy 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. Mike is also a member of the British Venture Capital Association Limited Partner Advisory Committee.

Alternate: Tom Kelly (appointed October 2018)

David Xie

Non-Executive Shareholder Director F

Appointed September 2018

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

Alternate: Jinhong Chen (appointed in September 2018)

Executive Committee

John Holland-Kaye
Chief Executive Officer

Javier Echave
Chief Financial Officer

Carol Hui,
Chief of Staff and General Counsel

For biographical details see page 80

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.

Stuart Birrell
Chief Information Officer

Stuart joined the Company as Chief Information Officer in June 2015. He previously held this role at Formula 1's McLaren Group where he built an integrated IT team of in-house experts and specialist suppliers to support the rapid growth of the business including new revenue streams. Stuart knows the airport industry well, having spent three successful years as CIO at Gatwick in the run up to, and after, the sale of the airport by Heathrow in 2009. At McLaren Group, he had experience of working in a high-performance environment, where you need extremely high levels of reliability and resilience. Stuart also brings expertise in the use of big data sets, cloud-based solutions and IT security in support of business growth and increased productivity.

Chris Garton
Chief Operating Officer

Chris was appointed as Chief Operating Officer in April 2018. Prior to this, Chris held the equivalent role at Dubai Airport, where he played a key role in growing the annual number of passengers over a nine-year period. His most recent role was Director of Asset Management with Associated British Ports and during his career, Chris has also held a number of positions in engineering and change management at Gatwick Airport, Ineos and ICI. He has a first-class degree in Engineering from London's Imperial College.

Executive Committee

Emma Gilthorpe

Executive Director Expansion

Emma was appointed as Executive Director Expansion in January 2017. Her responsibilities include Heathrow's expansion programme as well as master planning. Emma joined Heathrow in September 2009 as Regulatory Director and later became Strategy Director. She was previously BT plc's Group Director of Industry Policy and Regulation and has held a number of other senior regulatory and public-policy roles in Cable and Wireless.

Andrew Macmillan

Chief Strategy Officer

Andrew was appointed Chief Strategy Officer in January 2017. He is responsible for company strategy, forecasting, regulation and corporate process improvement. He joined Heathrow in October 2009 and has worked in strategy, operational and regulatory roles, including leading submissions to the Airports Commission. He is a non-executive trustee of the BAA Pension Fund. Prior to Heathrow, he was with McKinsey and Company based in London and Tokyo, working on infrastructure, logistics and organisational transformation and mergers in Europe, the Middle East and Asia.

Paula Stannett

Chief People Officer

Paula was appointed to HR Director in January 2013. She has worked at Heathrow for 13 years, most recently as HR Director for our Airports Division and Support Services, and previously as programme lead for Heathrow's Winter Resilience. Paula has a strong record of engaging staff to successfully put in place organisational change and improvement.

Corporate Governance

Chairman's introduction

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

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

For the year ended 31 December 2019, under the Companies (Miscellaneous Reporting) Regulations 2018, the HAHL Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018.

The Wates Principles provide a framework for the HAHL Board to monitor corporate governance of the HAHL Group and see where governance standards can be raised to a higher level across the business. We believe this, in turn, will result in better engagement with our stakeholder base and ultimately build trust with our passengers, colleagues and investors. The governance framework will also provide the right environment for the HAHL Board to make decisions for the long-term success of Heathrow.

The table below summarises the six Wates principles and indicates where more information can be found in the strategic and the governance reports. Throughout 2020, the HAHL Board will continue to review and challenge how the HAHL Group can continue to improve its corporate governance.

Principle	Summary	Page
Purpose and leadership	The HAML Board determines the long-term strategy, direction and performance of the HAML Group. Our vision is to give passengers the best airport service in the world and the HAML Board is responsible for ensuring that values, strategy and culture are aligned with that purpose. The HAML Group's strategic framework, shown in the Strategic Report page 23, embeds our vision, purpose, priorities and values with our strategic propositions as key elements to ensure our stakeholders' interests are central to our future developments at Heathrow.	22,72,86
Board composition	The HAML Board comprises the Chairman, CEO, CFO, three Independent Non-Executive Directors and ten Shareholder Non-Executive Directors. The Independent Non-Executive Directors bring outside experience in aviation, transport and finance and provide constructive challenge and influence. The composition of the HAML Board is partly determined by the Shareholders' Agreement and it is considered to be in the best interests of the HAML Group for the senior executives and each Shareholder to be represented at meetings. The HAML Board is committed to improving its diversity in terms of gender, ethnicity, disability and age and its Nominations Committee is responsible for reviewing diversity and succession planning.	90,91,93
Directors' responsibilities	The HAML Group has a separate Chairman and CEO to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained. The HAML Board receives regular reports on business, financial performance, passenger numbers, colleague issues and engagement, stakeholders and local communities and management of key business risks along with updates on activities and decisions of its committees. Non-Executive Directors provide constructive challenge to the Board's decision-making processes.	88-90
Opportunity and risk	The HAML Board seeks out opportunity while mitigating risk. Long-term strategic opportunities are highlighted in the annual Business Plan process presented to the HAML Board. The Risk and Assurance Committee and the Executive Committee ensure that inherent and emerging risks are identified and managed appropriately and in a timely manner updating the risk register for any changes in underlying conditions. Operational and safety risks are regularly reviewed by the Sustainability and Operational Risk Committee and financial risks by the Audit Committee.	60,94,106
Remuneration	The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the HAML Board concerning the HAML Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking. Pay is aligned with performance, taking into account fair pay and conditions across the company's workforce.	98
Stakeholder relationships and engagement	Central to our strategic framework, shown on page 23, is 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 74 and 75 sets out the details of some of the engagement that takes place at an operational or HAML Group level with key stakeholders.	22,74

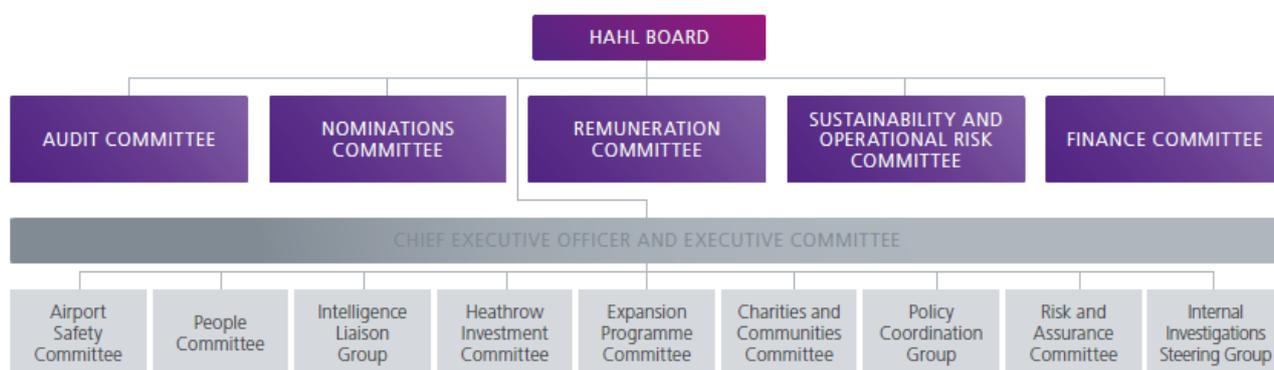
Corporate Governance

Governance Structure

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

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

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



The HAHL Board receives regular reports on business and financial performance, employee issues and management of key business risks. The Chairmen of the Audit Committee and the Sustainability and Operational Risk Committee provide regular updates on matters discussed at those committees. Decisions from the Remuneration Committee are shared with the HAHL Board. The Finance Committee submits an annual update of its activity to the HAHL Board and minutes of the committee are shared on a regular basis. Where appropriate, recommendations are made by each of the HAHL Board committees so that final decisions can be taken by the HAHL Board. Members of the HAHL Board have the opportunity to attend monthly Shareholder Working Group sessions to receive more in-depth information about specific aspects of the business.

The Executive Committee is the forum of the senior executive management team of the HAHL Group. The HAHL Board delegates authority for day-to-day management of the HAHL Group to the Executive Committee, which meets weekly and is chaired by the Chief Executive Officer. In addition to the Chief Executive Officer, membership of the Executive Committee includes the Executive Directors responsible for each business function. Further information is shown on page 84.

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, legal and regulatory matters, risk assurance and compliance, and reviews and approves all matters to be presented to the HAHL Board for its consideration or approval. There is a high level of interaction between the HAHL Board and the Executive Committee. Members of the Executive Committee provide presentations at board meetings on a regular basis and attend strategy days with the HAHL Board in order to review issues in more detail, plan and align views.

The Executive Committee delegates specific matters to a number of 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

Charities and Communities Committee: Responsible for agreeing strategy and policy for charitable giving and oversight of investment in local communities at Heathrow. It is chaired by the Chief of Staff and General Counsel. Other members consist of the Chief Financial Officer, Chief People Officer and Expansion Director.

Policy Coordination Group: A strategic, senior policy forum that provides advice and recommendations on Heathrow's policy priorities and positions to the Executive Committee and HAML Board, where necessary and oversees the implementation of engagement plans. Chaired by the Chief of Staff and General Counsel. Other members include the Director of Communications, Sustainability & Environment Director, Head of Policy and Strategic Communications.

Intelligence Liaison Group: Responsible for providing a secure forum to safely share secret, sensitive and often time critical intelligence. It is chaired by the Director of Security. Other members consist of the Chief Executive Officer, Chief Operations Officer, Chief of Staff and Counsel and Expansion Director.

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

Risk and Assurance Committee: Responsible for reviewing the effectiveness of the risk management strategy and framework and for reviewing the principal risks. It is chaired by the Chief of Staff and General Counsel. Other members consist of the Chief Financial Officer, and the Chief Strategy Officer.

Expansion Programme Committee: Responsible for oversight, steering and delivery of the Heath Expansion Programme. It is chaired by the Expansion Director. Membership includes the Expansion Programme Director and others.

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 Information Officer, Chief Operations Officer, Chief Communications Officer, Chief Strategy Officer and Expansion Director.

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

Internal Investigations Steering Group: Responsible for setting and overseeing compliance with the governance framework for relevant internal investigations and provides the Executive, HAML Board and Audit Committees with assurance that Heathrow has appropriate procedures to ensure appropriate governance and conduct of internal investigations. It is chaired by the Chief of Staff and General Counsel. Other members consist of the People Director, Head of Security Intelligence, Director of Internal Audit, Risk and Assurance, Deputy General Counsel, Head of Legal Commercial and a designated independent Non-Executive Director.

Corporate Governance

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 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, vision and values for the whole organisation; and
- creating the conditions for overall Board effectiveness.

Chief Executive Officer

The Chief Executive Officer is responsible for the leadership and day-to-day management of the HAHL Group, with a scope covering operations, finance, regulation, asset management, customer services, information services, human resources, corporate communications and legal.

Chief Financial Officer

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

Independent Non-Executive Directors

Independent Non-Executive Directors are responsible for providing constructive challenge and bringing independence to the 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 appointed in accordance with the Shareholders' Agreement and are responsible for providing constructive challenge to the HAHL Board's decision-making processes.

Company Secretary

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

Corporate Governance

Composition of the HAHL Board and its committees

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 80 to 83. Nine of the Non-Executive Shareholder Directors have formally approved alternates, who are also listed. The alternates are statutory directors of HAHL, who attend board and other meetings only when Shareholder Non-Executive Directors are unable to do so. 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 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 and gender). Non-executive appointees are also required to demonstrate that they have sufficient time to devote to the role.

The Independent Non-Executive Directors bring outside experience in aviation, transport and finance. They 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 Rt. Hon. Ruth Kelly was appointed as an additional Independent Non-Executive Director on 8 April 2019.

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 & Safety, Conflicts of Interest and Anti-Bribery, Gifts and Hospitality.

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 provides that each Shareholder controlling 10 per cent or more of the issued ordinary shares of FGP Topco Limited, is entitled to appoint one director to the HAHL Board. 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 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 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. The 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.

Corporate Governance

2019 HAHL Board activities

The HAHL Board held eleven scheduled meetings during the year ended 31 December 2019 and two strategy days in conjunction with the Executive Committee. During the year the HAHL Board focused on a number of areas as set out below.

Strategy and operational

- Considered operational and business performance.
- Received updates on material communications with regulators and considered the impact of changes in regulation and developing regulation affecting Heathrow Expansion.
- Airport Expansion.
- Industrial relations
- Passenger growth strategy
- Retail strategy
- Initial Business Plan

Financial performance

- Reviewed financial performance and forecasts.
- Considered and approved the 2019/20 budget.
- Reviewed and approved results announcements
- Approved the payment of quarterly interim dividends.

2019 HAHL Board activities

Leadership & Stakeholders

- Approved the appointment of Maria Casero as a non-executive director and the appointment of the Rt Hon Ruth Kelly as an independent non-executive director.
- Approved the extension of appointments of Professor David Begg and Rachel Lomax as independent non-executive directors.
- Discussed the revised approach to workforce engagement.
- Considered updates on diversity and succession planning.

Governance

- Reviewed and approved the 2018 annual report and accounts.
- Considered the impact of new corporate governance requirements, including additional reporting requirements and the Wates Code.
- Considered output from the HAHL Board evaluation process.
- Considered and agreed key risks and their mitigation and control.
- Agreed Modern Slavery Act Statement
- Approved 2018/19 Continuity of Service Plan.

Corporate Governance

Effectiveness

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

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

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

Key financial information is collated from the Heathrow Group's various accounting systems. The HAHL Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial information is externally audited by Deloitte 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.

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. An externally facilitated assessment of the HAHL Board and its Committees was conducted in October 2015 and informal self-assessments took place in September 2018 and November 2019. Areas covered included boardroom behaviours and dynamics, the number, structure and process around board meetings, board composition and structure and the interaction between the HAHL Board and its formal committees.

The results of each evaluation were presented to the HAHL Board for consideration and recommendations, with follow-up actions debated and adopted as appropriate. Overall, the reviews showed a consensus that the HAHL Board is functioning well and is effective. No material shortcomings in relation to the operation of the HAHL Board and its committees were highlighted by the reviews. 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

Other Committee Members

Jorge Gil

His Excellency Akbar Al Baker

Ernesto Lopez

Rt. Hon Ruth Kelly

Introduction

The Audit Committee reviews and reports to the HAML Board on matters relating to financial reporting. It also reviews the role and independence of the external auditor.

Role and responsibilities

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

2019 Activity

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

Financial Reporting

- Reviewed and recommended approval of the interim and preliminary results, draft annual report and the associated going concern statements.
- Reviewed the annual statement of responsibility by management with respect to the internal controls environment.
- Reviewed financial resilience and assumptions used to support the going concern statement.
- Reviewed Group accounting policies with emphasis on the impact of the IFRS 16 leasing standard which is applicable for the current year.
- Reviewed accounting developments and their impacts and significant accounting issues

External Audit

- Considered reports by the external auditor on its audit and its review of the financial statements.
- Reviewed the external audit strategy and assessed effectiveness of the external audit.
- Reviewed and approved the proposed approach for transitioning our auditors in 2020.
- Reviewed audit and non-audit fees incurred in 2019.

Internal Audit

- Approved the scope of the 2020 internal audit plan.
- Reviewed delivery of the 2019 internal audit plan and approved any material changes to it.
- Reviewed the conclusions, key findings and actions (remediation plans) from internal audits completed.
- Monitored progress of the implementation of actions from internal audit activity.
- Considered whether the internal audit function is adequately resourced.

Risk Management and Internal Control

- Reviewed the effectiveness of risk management and internal governance for the HAML Group, particularly in relation to financial risks. Further detail on our approach to managing risk is included on page 60.
- Reviewed the effectiveness of Heathrow's internal control systems and application of internal financial reporting controls.
- Monitored progress and reviewed the approach to the upgrade of our general ledger and ERP system.
- Reviewed effectiveness of, and provided guidance to, Heathrow's Fixed Asset Steering Group.

Governance and other

- Considered and approved our tax strategy and reviewed tax matters.
- Reviewed the Committee's terms of reference.
- Received corporate governance updates.
- Review Heathrow's procedures for handling allegations from whistleblowers and receiving reports from the Internal Investigations Steering Group.

Key judgements and financial reporting matters

The Audit 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 the management, work and recommendation of the Group finance function and input from external auditor, the Committee considered that the most significant financial statements' risk matters are as follows:

Key judgement and financial reporting matters	Audit committee review and conclusions
<p>Classification of costs between operating expenditure and capital expenditure</p> <p>The HAHL Group has a substantial capital programme which has been agreed with the regulator (the Civil Aviation Authority).</p> <p>Only those costs which satisfy the requirements of IAS16 'Property, Plant and Equipment' should be capitalised, which in some cases requires management judgement.</p>	<p>The Committee reviewed and approved the HAHL Group property, plant and equipment accounting policy.</p> <p>The Committee received regular updates of work undertaken by the Fixed Asset Steering Group (FASG), who are responsible for ensuring capitalised costs are appropriate, and challenged the FASG to ensure that processes and controls are further improved to deal with the increased capital spend associated with Heathrow expansion. As a result, additional financial controls were identified which will further improve our internal control environment. These will be embedded into our processes during 2020.</p> <p>The Committee reviewed Managements judgement that it remains probable that expansion of the airport will continue and therefore it is appropriate to have recognised £450m of spend to date as an asset in the course of construction.</p> <p>The Committee noted that there was a strong case for expansion and the benefits it will bring the UK. It noted this was evidenced by the UK parliament vote overwhelmingly supporting the Airport National Policy Statement in 2018. It also noted the recent CAA policy document on early design and construction costs, provided further progress towards agreeing the regulatory certainty necessary to deliver an expanded Heathrow. The Committee noted the detailed assessments undertaken by Heathrow Management on the affordability of the current Master Plan and the support that the project has from the Executive and Board of Heathrow. It also however noted there was still uncertainty both in the short and medium term. Notable uncertainty included agreement of a regulatory framework which includes the incentives needed for investment, the outcome of a judicial review which is currently taking place and the overall response to the DCO application once it is submitted.</p> <p>The Audit Committee agreed with Management and concluded it was probable expansion would occur. It therefore concluded it was appropriate to continue to recognise an asset in the course of construction.</p>
<p>Hedge accounting</p> <p>The HAHL Group designates certain derivative financial instruments as cash flow hedges.</p> <p>Significant changes in the expected quantum of future Sterling refinancing may lead to insufficient Sterling borrowings to support components of the cash flow hedge reserve, requiring the recycling of the cash flow hedge reserves through income statement.</p>	<p>The Committee sought quarterly updates on management assessments, including justification of the key assumptions which support the Cash Flow Hedge Reserve.</p>
<p>Fair value of derivative financial instruments</p> <p>The HAHL Group holds a substantial derivative financial instruments portfolio comprising interest rate swaps, cross currency swaps, and index-linked swaps which are accounted for at fair value.</p> <p>In determining the fair value, judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps).</p>	<p>The Committee requested quarterly updates on the estimated fair value of open derivatives and justification of the valuation estimate.</p> <p>The current year fair value position was noted as being particularly volatile due to macroeconomic and political conditions in the UK. The Committee asked the Chief Financial Officer to monitor the fair value movements on a weekly basis and to include sufficient headroom when considering future distributable reserves. As a result, the Committee was able to be satisfied that the volatility was being appropriately managed and did not risk the financial stability of the HAHL Group.</p> <p>The Committee continues to support management in its discussion with the International Financial Reporting Interpretations Committee to clarify whether it reasonable to designate index-linked swaps as an inflation hedge under IFRS 9.</p> <p>Further detail regarding the sensitivity of the year end valuation to key assumptions can be found in note [x].</p>

Key judgement and financial reporting matters	Audit committee review and conclusions
<p data-bbox="165 208 456 230"><u>Fair value of investment properties</u></p> <p data-bbox="165 248 691 356">The HAML Group holds a variety of investment properties that are accounted for at fair value. In determining the fair value, judgement is required with regard to a number of valuation assumptions that include property rental growth rate, operating cost and expected yields.</p>	<p data-bbox="715 208 1422 271">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.</p> <p data-bbox="715 293 1422 378">The Committee challenged the valuation of investment properties which may be removed as part of Heathrow Expansion and received confirmation that under IAS40 any investment property removed would be transferred to property, plant and equipment at its fair value with no impact to reserves.</p> <p data-bbox="715 400 1422 445">The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note [x].</p>
<p data-bbox="165 465 536 488"><u>Valuation of the retirement benefit obligation</u></p> <p data-bbox="165 506 691 551">The HAML Group operates a defined benefit pension scheme with both open and closed sections.</p> <p data-bbox="165 573 691 636">Assessing the defined benefit pension obligation requires significant estimate and judgement, in particular with regard to discount rate, inflation and mortality.</p>	<p data-bbox="715 465 1422 573">In the current year a Triennial pension review was performed. The Committee challenged key economic and mortality assumptions used in the IAS19 accounting and discussed this with external auditors. After receiving expert third party advice the committee concluded that the assumptions were based on reasonable methodology and within an acceptable range.</p> <p data-bbox="715 595 1422 640">The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note [x].</p>

Remuneration Committee

Jorge Gil
Chair

Committee Members

Ernesto Lopez
Stuart Baldwin
Ahmed Al-Hammadi
Rachel Lomax

Introduction

The Remuneration Committee is responsible for making recommendations to the HAHL Board concerning the Group's remuneration strategy, framework and policy, and approve the compensation packages for senior executives. In doing so, the Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the company operates and from other sectors. The Remuneration Committee has clearly defined terms of reference.

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

Each year the Group publishes its Gender Pay Report which can be found at www.heathrow.com. Further details on our gender pay-gap can be found on page 32.

Roles and responsibilities

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

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

2019 Activities

The Remuneration Committee held four scheduled meetings during the year, and its main activities were:

- Reviewed Heathrow reward offering and compared to the external market;
- Agreed the direction of development of the new reward strategy in 2020;
- Approved the launch of a new annual Share in Success Saver plan for the wider colleague population;
- Approved the payment of the 2018 annual bonus, the 2015 Share in Success (SIS) Grant and Saver Plans and the 2016 Performance Cash Plan (PCP);
- Approved the performance metrics and targets for 2019 annual bonus, 2019 SIS Grant and the 2019 wider colleague SIS Saver plan;
- Approved the 2019 Heathrow Gender Pay Gap; reviewed progress made to date and the associated action plan; and
- Approved the budget for 2020 annual salary review for senior management grades; and
- Discussed Environmental, Social and Governance (ESG) metrics for the annual bonus plan and SIS Saver and Grant plans, with a desire to include these in the future.

Remuneration and components

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

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

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

Executive and wider workforce remuneration policy table

The Remuneration Committee takes into account fair pay and conditions across Heathrow's workforce when setting the executive directors' remuneration policy. Pay components vary by an individual's organisational band (level in the organisation), however, remuneration themes are broadly consistent across the wider workforce. The key components of the executive committee's remuneration relative to the wider workforce are summarised below:

Component and purpose in supporting business strategy	Executive committee 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 set taking into account: <ul style="list-style-type: none"> the role's scope, responsibilities and accountabilities, remuneration benchmarking and competitive market practice, individual performance, and fair pay and conditions across Heathrow's workforce. 	Base salaries are reviewed annually, and set taking into account: <ul style="list-style-type: none"> the role's scope, responsibilities and accountabilities, remuneration benchmarking and competitive market practice, individual performance, and fair pay and conditions across Heathrow's workforce. 	Frontline colleague 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 and private healthcare, life assurance and permanent health insurance.	Eligibility for benefits is determined by an individual's organisational band, and includes some or all of: cash travel allowance, private healthcare, life assurance and permanent health insurance.	Benefits include life assurance and permanent health insurance.
Retirement provisions To comprise part of a market competitive remuneration package, rewarding sustained contribution and encouraging retention.	<p>Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008.</p> <p>Colleague contribution rates are either 3%, 5% and, 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively.</p> <p>Alternatively, the Executive committee may also be offered a fixed percentage of their annual base salary. The Chief Executive Officer receives a supplement of 30% of annual base salary having been granted protection by HMRC for the Lifetime Allowance for pensions.</p>	<p>Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008.</p> <p>Colleague contribution rates are either 3%, 5% and, 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively.</p> <p>The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date.</p> <p>All colleagues impacted by the Lifetime Allowance or Annual Allowance may opt for an alternative cash allowance. This comprises of £10,000 payable as an Employer Pension Contribution, if applicable, with the balance payable as a salary supplement.</p>	<p>Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008.</p> <p>Colleague contribution rates are either 3%, 5% and, 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively.</p> <p>The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date.</p> <p>All colleagues impacted by the Lifetime Allowance or Annual Allowance may opt for an alternative cash allowance. This comprises of £10,000 payable as an Employer Pension Contribution, if applicable, with the balance payable as a salary supplement.</p>
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.	<p>Executive committee participate in the Heathrow Bonus Plan. The plan is measured against targets for EBITDA (75% weighting) and Gross Operating Expenses (25% weighting).</p> <p>Subject to satisfying individual and financial performance criteria, the maximum incentive opportunity is 100% of base salary for the Chief Executive Officer. This is paid in March of the following year.</p>	<p>Management colleagues participate in the Heathrow Bonus Plan. The plan is measured against targets for EBITDA (75% weighting) and Gross Operating Expenses (25% weighting).</p> <p>Eligibility for annual bonus and target bonus opportunity is determined by an individual's organisational band. Subject to satisfying individual and financial performance criteria, the maximum bonus opportunity is 200% of target. This is paid in March of the following year.</p>	Frontline colleagues participate in the Airport Profit Bonus with payment determined by EBITDA performance.

¹ Also applies to the directors of Heathrow Airport Ltd

Component and purpose in supporting business strategy	Executive committee	Management Colleagues	Negotiated Grade Colleagues
<p>Long-term incentive plan Aligns the interests of executive directors with those of our ultimate shareholders, rewarding long-term sustainable results, creating shareholder value and encouraging retention.</p>	<p>Executive committee participate in the Heathrow Share in Success (SIS) Grant (Long-Term Incentive Plan) designed to reward the most senior leaders for the success of Heathrow over a three-year period. Executive directors are allocated an award with a maximum face value of 200% of base salary for the Chief Executive Officer at the start of the plan. Each executive director will receive a cash payment provided that Heathrow meets agreed performance conditions measured over a three-year period.</p> <p>The SIS Grant is measured against targets for EBITDA (40% weighting), Airport Service Quality (ASQ) score (30% weighting) and the return on Regulatory Assets Base (RAB) for our shareholders (30% weighting). For each performance metric, entry level performance results in zero vesting, target level performance results in 50% vesting and maximum level performance results in 100% vesting.</p> <p>There are currently three SIS Grants in operation:</p> <ul style="list-style-type: none"> • 2017 SIS Grant: performance measured over 2017 to 2019; payment in August 2020. • 2018 SIS Grant: performance measured over 2018 to 2020; payment in August 2021. • 2019 SIS Grant: performance measured over 2019 to 2021; payment in August 2022. <p>The Remuneration Committee can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards.</p>	<p>Members of senior management participate in the Heathrow SIS Grant (Long-Term Incentive Plan) designed to reward the most senior leaders for the success of Heathrow over a three-year period. Senior Managers are allocated an award with a maximum face value determined by individual organisational band. Each participant will receive a cash payment provided that Heathrow meets agreed performance conditions measured over a three-year period.</p> <p>The SIS Grant is measured against targets for EBITDA (40% weighting), Airport Service Quality (ASQ) score (30% weighting) and the return on Regulatory Asset Base (RAB) for our shareholders (30% weighting). For each performance metric, entry level performance results in zero vesting, target level performance results in 50% vesting and maximum level performance results in 100% vesting.</p> <p>There are currently three SIS Grants in operation:</p> <ul style="list-style-type: none"> • 2017 SIS Grant: performance measured over 2017 to 2019; payment in August 2020. • 2018 SIS Grant: performance measured over 2018 to 2020; payment in August 2021. • 2019 SIS Grant: performance measured over 2019 to 2021; payment in August 2022. <p>The Remuneration Committee can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards.</p> <p>Management colleagues not eligible to participate in the SIS Grant, are eligible to participate in the SIS Saver plan, where colleagues have the opportunity to save in return for a bonus, subject to company performance. To ensure all our colleagues are incentivised to deliver the same long-term goals, the targets for the performance metrics in the SIS Saver plan are aligned with the targets of the SIS Grant.</p> <p>There is currently one SIS Saver plan in operation:</p> <ul style="list-style-type: none"> • 2019 SIS: performance measured over 2019 to 2021; payment in July 2022. 	<p>In 2015 the SIS Saver was introduced to give colleagues an opportunity to benefit from exceeding business targets over the Q6 Regulatory Period and to ensure that the long-term incentive plans for all colleagues in Heathrow were aligned. Given the success of the 2015 SIS Saver, in supporting delivery of the Q6 plan and targets, which was reflected in the payout, the Remuneration Committee approved the introduction of a new three-year SIS Saver plan with the intention of launching a new plan annually.</p> <p>The wider colleague population are eligible to participate in the SIS Saver plan, where colleagues have the opportunity to save in return for a bonus, subject to company performance. To ensure all our colleagues are incentivised to deliver the same long-term goals, the targets for the performance metrics in the SIS Saver plan are aligned with the targets of the SIS Grant.</p> <p>There is currently one SIS Saver plan in operation:</p> <ul style="list-style-type: none"> • 2019 SIS: performance measured over 2019 to 2021; payment in July 2022.

¹ Also applies to the directors of Heathrow Airport Ltd

Potential reward opportunities at different levels of performance

The graph below shows the Chief Executive Officer's total remuneration levels under the different performance scenarios: Minimum, Target and Maximum. The remuneration policy aligns a high proportion of total executive remuneration with the performance of the Group.



Minimum: Fixed pay comprising of current base salary, pension and benefits.

Target: Minimum plus target annual bonus and the SIS Grants in operation vest at the target level (annualised).

Maximum: Minimum plus maximum annual bonus and the SIS Grants in operation vest in full (annualised).

Chief Executive Officer remuneration

The table below presents the remuneration figures for the Chief Executive Officer for the years ended 31 December 2018 and 31 December 2019:

2019	Fixed pay (£)				Performance pay (£)			
	Salary/fees	Benefits	Pension	Sub-total	Annual bonus ¹	SIS Grant vesting ²	Sub-total	2019 total
Chief Executive Officer								
John Holland-Kaye	750,905	19,577	225,272	995,754	565,965	1,043,044	1,609,009	2,604,763

¹ Accrued annual bonus to be paid in March 2020.

² Expected 2017 SIS Grant to be paid in August 2020 (based on performance measured over the three 3 years 2017 to 2019).

2018	Fixed pay (£)				Performance pay (£)			
	Salary/fees	Benefits	Pension	Sub-total	Annual bonus ³	PCP and SIS Grant vesting ⁴	Sub-total	2018 total
Chief Executive Officer								
John Holland-Kaye	733,177	19,532	219,953	972,662	540,496	2,813,325	3,353,821	4,326,483

³ Actual annual bonus paid in March 2019.

⁴ Actual 2016 PCP, paid in August 2019 (based on performance measured over the three years 2016 to 2018), and SIS Grant paid in March 2019. The SIS was introduced in 2015 to reward colleagues based on the success of the Q6 Regulatory Period over the four-year period 2015 to 2018. The total amount paid in 2018 is therefore attributable to four years of performance.

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 Remuneration 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 HAML Group.

Nominations Committee

Lord Deighton

Chair

Other Committee Members

Jorge Gil

His Excellency Akbar Al-Baker

Stuart Baldwin

Mike Powell

Rachel Lomax

Introduction

The Nominations Committee met three times during the year. In April it recommended the extension of the Chairman's appointment for a further period of 3 years from 1 May 2019 to 30 April 2022. The Committee also undertook a search for a new independent non-executive director and recommended the appointment of the Rt. Hon. Ruth Kelly to the HAML Board in April 2019.

Roles and responsibilities

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

- identifying and recommending for the consideration of the HAML Board all new appointments of Independent Non-Executive directors;
- identifying and recommending for the consideration of the HAML Board the appointment of the Chairman; and
- ensuring a formal, rigorous and transparent procedure is followed for the appointment of new independent Non-Executive directors to the HAML Board.

Finance Committee

Ernesto Lopez

Chair

Other Committee Members

John Holland-Kaye

Javier Echave

A non-Executive Shareholder Director representing each shareholder entitled to appoint a director to the HAHL Board

Introduction

The Finance 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.

Roles and responsibilities

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

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

2019 Activities

The Finance Committee held ten scheduled meetings during the year, and its main activities were to approve:

- debt funding for Heathrow, including bond issuances, credit facilities and private placements;
- Heathrow's Funding and Investment Engagement Plan;
- The Heathrow (SP) Limited and Heathrow Finance plc 2019 Investor Report; and
- the base prospectuses for each of Heathrow Finance plc and Heathrow Funding Limited.

Sustainability and Operational Risk Committee

Professor David Begg

Chair

Other Committee Members

John Holland-Kaye

Jorge Gil

Olivier Fortin

His Excellency Akbar Al-Baker

Introduction

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

Roles and responsibilities

The Sustainability and Operational Risk Committee is a sub-committee of the HAML Board and its responsibilities include:

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

2019 Activities

The Sustainability and Operational Risk Committee held four scheduled meetings during the year, and its main activities were:

Safety

- Reviewed and advised on safety performance and the actions being taken to ensure compliance and improve fire, health and safety standards and to strengthen Heathrow's safety culture;
- Reviewed incidents, using the learnings to develop and promote best in class safety performance;
- Reviewed and advised on the progress of the health and wellbeing transformation agenda in three strategic areas; 'Your Mind Matters', 'Your Health Matters', 'Your Body Matters';

Security

- Reviewed and advised on the cyber security strategy, cyber incidents and mitigation initiatives;
- Reviewed and advised on aerodrome security threats, security improvement deliverables and considered the learnings from external and in-house assessments;

Sustainability

- Reviewed and advised on delivery of Heathrow 2.0 targets, in particular, carbon, noise, air quality and waste, supported by a programme of internal and external engagement;
- Considered the programme of activity to embed Heathrow 2.0 strategy within the business;

Risk and Assurance

- Reviewed the principal risks to ensure alignment with the corporate governance framework and strategy;
- Provided challenge to the business with regards to audit and assurance reports; and
- Reviewed and advised on Brexit contingency planning.

Heathrow (SP) Limited Directors Report

The directors present their annual report and audited financial statements for the year ended 31 December 2019.

Principal activity

The principal activity of Heathrow (SP) Limited is as the holding company of Heathrow (AH) Limited, owner of Heathrow Airport Limited, operator of the Heathrow Express rail service and owner of Heathrow Funding Limited, the bond issuer of the Group.

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

Results and dividends

The profit after taxation for the financial year amounted to £413 million (2018: £333 million profit).

Dividends of £480 million (2018: £485 million) were paid to Heathrow Finance plc during the year. The dividend payments were used to fund dividends to the Group's ultimate shareholders.

The statutory results for the year are set out on page [x].

Directors

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

Yuanyuan Ding (Sally)

Javier Echave

Emma Gilthorpe

Nicholas Golding

Company secretary

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

Employment policies

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

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

The Group has defined a set of guiding principles to ensure fair recruitment and selection. The Group continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles. The Group is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Group actively encourages a diverse range of applicants and commits to fair treatment of all applicants.

Statement of corporate governance arrangements

Details of corporate governance arrangements can be found on page 87.

Employee engagement statement

Details of how the Directors have engaged with employees can be found in the section 172 (1) statement on page 74.

Stakeholder engagement statement

Details of how the Directors have engaged with suppliers, customers and other stakeholders can be found in the section 172 (1) statement on pages 74 and 75.

Subsequent events

Subsequent events are disclosed in note 28.

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.

Matters disclosed in strategic report	Page
Environmental matters - Sustainable growth	30
- Business resilience	62-63
- Corporate social responsibility	62-63
Colleagues - Colleague policies	32,108
- Health and safety	26,62-63
Anti-corruption and bribery policy	91
Social matters - charitable donations	46
Security of the airport and passengers	62-63
Leadership and governance	87
Description of principal risks - Business	62-63
- Financial management	96-97
Description of the Heathrow business model	14-17
Non-financial performance indicators	[x]
Research and development and innovation	36

Auditor

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

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

Statement of disclosure of information to the Auditor

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

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

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

The report was approved and authorised by the Board and was issued on behalf of the Board.

Javier Echave

Director

25 February 2020

Company registration number: 06458621

Directors' responsibilities statement

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

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

In preparing the parent company financial statements, the directors are required to:

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

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The report was approved and authorised by the Board and was issued on behalf of the Board.

Javier Echave
Director

25 February 2020

Financial statements

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Group financial statements

Consolidated income statement	x
Consolidated statement of comprehensive income	x
Consolidated statement of financial position	x
Consolidated statement of changes in equity	x
Consolidated statement of cash flows	x
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Significant accounting judgements and estimates	x
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Company financial statements

Statement of financial position	x
Statement of changes in equity	x
Accounting policies	x
Significant accounting judgements and estimates	x
Notes to the Company financial statements	x
Additional unaudited information	x

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