

LHR Building Control Services Limited

Annual report and financial statements for the year ended 31 December 2020

Company number: 03316215



LHR Building Control Services Limited

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LHR Building Control Services Limited

Officers and professional advisers

Directors

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Chris Garton
Trevor Rule
John Arbuckle

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LHR Building Control Services Limited

Directors' report

The Directors present their annual report and the audited financial statements for LHR Building Control Services Limited (the 'Company') for the year ended 31 December 2020.

The Company has taken advantage of the small companies' exemption of not preparing a Strategic report as allowed by the Companies Act 2006. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "Reduced Disclosure Framework".

Principal activity

The principal activity of the Company is the monitoring of design and construction elements of 'Building work' (as defined within the Building Act 1984) to ensure compliance with the Building Regulations for the Heathrow Airport Holdings Limited group (the 'HAHL Group').

The Company also earns revenue from building work undertaken in third party property and retail outlets at Heathrow Airport. Operating costs are primarily the cost of labour incurred by the Company as a recharge of costs from LHR Airports Limited.

The immediate parent undertaking is LHR Airports Limited and forms part of the HAHL Group.

Results

In the year ended 31 December 2020 the Company's revenue was £449,000 (2019: £424,000) and operating costs were £423,000 (2019: £397,000). The profit for the financial year amounted to £41,000 (2019: £61,000). At 31 December 2020, the Company had net assets of £1,148,000 (2019: £1,107,000). The statutory results for the year are set out on page 14.

Directors

The directors who served at any time during the year and since the year end except where noted are as follows:

Amanda Owen – appointed on 31 July 2020
Christopher Garton – appointed on 2 October 2020
Emma Gilthorpe – resigned on 2 October 2020
Edgar Vila Pouca – resigned on 29 May 2020
Trevor Rule
John Arbuckle

Going concern

The financial information presented within these financial statements has been prepared on a going concern basis. The Company, as part of the HAHL Group, has a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. Nevertheless, the impact of Covid-19 continues to create considerable uncertainty for the aviation industry, which may result in the Group needing to take further action, including seeking a further covenant waiver or amendment from Heathrow Finance Plc creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Company's ability to continue as a going concern. More detail can be found in the going concern statement on page 17.

Future developments

No significant changes to the activities of the Company or future developments are expected in the foreseeable future.

Key performance indicators

Given the straightforward nature of the Company's business, the directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of development, performance or position of the Company's operations.

Employment policies

The Company has no direct employees (2019: none). The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the HAHL Group.

Internal controls and risk management

Internal controls and risk management are key elements of the Company's corporate operations.

LHR Building Control Services Limited

Directors' report *continued*

Internal controls

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

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

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

Risk management

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

The framework provides guidance on how risks should be identified, mitigated, reviewed and reported within Heathrow. During 2020, we have continued to improve our risk processes, building on the current risk-management structure, to enhance the data quality, completeness of risk information and control measurement in addition to improving the overall reporting integrity.

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

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

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

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

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Directors' report *continued*

Risk management *continued*

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

The risks outlined in the below 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 HAHL Group faces, as the risk environment evolves these risks are being constantly reviewed and updated.

Principal risks

A Safe and Secure Operating Environment

Keeping people safe is our top priority. We have a legal and moral responsibility to ensure that we safeguard the wellbeing of our people, and also our business partners and the public who may be affected by our activities, from the risks relating to fire, health, and safety. An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks. In 2020, COVID-19 has added to those risks and the complexity of their management. Failure to operate a safe and healthy environment risks damaging the health and wellbeing of stakeholders, impacting colleague engagement, operational disruption and costs, inconvenience to passengers and long-term damage to our reputation. The UK security threat level is severe. 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.

Risk mitigation

Our fire, health and safety ('FHS') management system includes risk assessment processes for all activities that have significant risk and ensures proportionate control measures are used. We set FHS standards for our own operations and companies that work at our airport. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles.

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. 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 and safety culture. Colleagues' health and wellbeing is promoted and supported by a range of products and services including our Employee Assistance Programme, online GP service and information and tools for managers and colleagues.

COVID-19 specific risks have been addressed within our Fly Safe programme. We have invested in UK aviation's most extensive array of COVID-19-secure technologies. New rapid testing technologies are already helping to open up overseas markets safely. 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.

Information Security

Information security, which refers primarily to our systems and information and the data contained in them, continues to be a risk for us. Malicious cyber-attack is a continued risk given the size and breadth of our network and operating environment. Attacks continue to be more sophisticated and prevalent. In addition, new ways of working following the COVID-19 crisis have also resulted in an increased risk profile.

Risk mitigation

Under the direction of a newly formed Cyber Security Directorate, we are implementing an improved cybersecurity programme which will ensure strong technical and operational measures are in place to enable us to comply with our regulatory and legal requirements. Mandatory training has been successfully rolled out along with regular awareness campaigns with emphasis on phishing emails and the use of social media. The cyber-security programme will continue to make improvements across all parts of Heathrow into 2021.

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Directors' report *continued*

Principal risks *continued*

Regulation Requirements

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

Risk mitigation

The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated regulatory team. This team ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and HAHL Board on regulatory matters. The regulatory framework requires formal engagement with airline customers. All airlines are invited to be represented on engagement forums – for example joint steering groups.

In addition, key stakeholders are engaged on a joint planning basis which provides the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood. We worked closely with airlines, the CAA and other stakeholders as we developed Heathrow's Revised Business Plan for the H7 regulatory period which was published in December 2020. In parallel we continue to engage on our application for an adjustment to the RAB to recover an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. The CAA announced in April 2021 that it has agreed to a limited, early adjustment to the Regulatory Asset Base of £300m and that the issue will be considered further as part of the H7 price control. Both the H7 settlement and the enactment of any further RAB adjustment are highly uncertain at this stage. There is a material risk for both that, based on regulatory publications to date, the regulator could fail in practice to enact established regulatory principles such as a fair balance of risk and return or the return of regulatory depreciation. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority.

Following the Court of Appeal ruling setting aside the ANPS, the CAA began a review of its policy on the recovery of expansion costs. The CAA has proposed that all costs efficiently incurred until the end of February 2020 related to the delivery of expansion can be recovered from 2022. It is also proposing to implement a similar policy for the recovery of wind down and Supreme Court Appeal costs. A final policy is due to be established in Q1 2021.

In addition, we engage closely with internal and external legal advisors to ensure that relevant and appropriate advice is received and that our response to reviews and our actions to ensure compliance with regulatory requirements reflect such advice.

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

In June 2018 the Secretary of State for Transport designated the ANPS providing policy support for Heathrow expansion. In February 2020, the Court of Appeal held that the ANPS was not lawfully made because the Secretary of State was required but failed to take into account the Paris Agreement and other climate change matters. The Court of Appeal declared that the ANPS has no legal effect unless and until it is reviewed by the Government under statutory procedures. We appealed this decision. Our appeal was heard by the Supreme Court in October 2020 and judgment issued on 16 December 2020. The Supreme Court unanimously allowed our appeal meaning the ANPS has been reinstated. Following the judgment, it is still possible that the Government may decide to review the ANPS.

Risk mitigation

We appealed the Court of Appeal's judgment on legal grounds with a view to reinstating the ANPS. Having won the appeal and restored the ANPS, we have positively reiterated the case for expanding Heathrow in line with Government policy and we are consulting with the Government, the CAA and other stakeholders on the next steps to progress our plans.

Reduced revenue

COVID-19 has led to an unprecedented decline in passenger volumes and revenues. These circumstances have been exacerbated by the regulatory and policy environment - Government has imposed quarantines, delayed the introduction of testing solutions, removed VAT Free shopping and excluded Heathrow from full business rates alleviation. Retail has been the largest non-aeronautical income stream impacted.

Risk mitigation

Aviation - Our strategic response to protect revenues and drive passenger volumes has been:

1. Where possible, getting our incumbents to fly the slots which they have – informed by our intense lobbying on slot waiver and desire to offer growth incentives where sustained return to flight looks plausible.
2. Encouraging consolidation of airlines' London operations at Heathrow; as successfully done with BA and VS.
3. Where slots are not flown, gaining access to those slots to maximise ad-hoc slot utilisation and particularly new entrant operations (9 secured in 2020).

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Directors' report *continued*

Principal risks *continued*

Reduced revenue *continued*

The above approach is underpinned by a cargo operation which has allowed airlines to switch their operations to cargo-only and / or 'freighters' (passenger planes temporarily converted to freighters) and by an approach to aeronautical pricing which supports airlines building back their schedules in 2021 whilst recognising the increasing importance of cargo and the reality of lower load factors.

In order to protect our right to recover the costs which we have incurred in good faith in order to allow all our airlines to fly any passenger, any route, all cargo throughout the pandemic, we have taken swift action to reduce costs in 2020. We will either apply the 'Other Regulated Charges' ('ORC') protocol through increased unit costs throughout 2021 or progress an alternate airline proposal to secure the under-recovered cost base.

Retail - Key measures implemented to contain the impact on retail income include:

1. Close monitoring and balance of assessed debt and contractual fixed income guarantees in order to maximise overall retail revenue.
2. Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deed with minimal level of disruption and delays (e.g. lending locations to businesses that could make immediate use of the structure 'as is').

Liquidity and ability to Access Finance

We need to continue to be able to access finance to fund our current operations.

Risk mitigation

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.

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. Realisation of Principal and other risks could deteriorate the quality of our credit rating and increase this risk.

Resilience of Team Heathrow

The COVID-19 pandemic has had a significant impact on the aviation industry, as well as more widely on the other key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that a sustained lack of resilience across the wider Team Heathrow has an impact on our ability to provide the service levels and passenger experience our passengers and airlines expect

Risk mitigation

We continue to work closely with our airline customers, retailers and wider stakeholders during the pandemic. We monitor the financial health of our key Team Heathrow partners to ensure we have early warning of any concerns so that where possible we can work together to find a solution or provide alternative facilities where this proves to be the more viable option. Regular engagement takes place at both management and operative level across key members of Team Heathrow to discuss future plans and strategies.

Across our supply chain, our Supplier Management function monitors the real-time financial risks associated with our critical suppliers (e.g. financial strength, likelihood of insolvency, liquidity, credit worthiness, compliance with payment terms, etc.). This monitoring enables early sight of potential insolvency risks, which are initially investigated by Supplier Management and highlighted immediately to relevant Commercial Managers, allowing risks to be managed by all relevant stakeholders and mitigated.

Ineffective Organisation – Systems and People

Systems - We are constantly adapting to our internal and external requirements. Existing systems and processes become unsuitable, outdated and need to evolve to meet the needs of our business.

People - We rely on our people to ensure that we operate effectively. External and internal requirements put pressure on colleagues, particularly during the COVID-19 pandemic, with the additional risk of a threat of industrial action.

Risk mitigation

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 2020 we launched a project to upgrade our financial and people ERP system to support working in a simpler, more agile and cost-effective way.

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Directors' report *continued*

Principal risks *continued*

Ineffective Organisation – Systems and People *continued*

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; as well as maintain accountability and compliance with internal governance, policies and procedures. We provide career opportunities, development and training. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.

Political environment

Our ability to meet passenger and cargo demand is reliant on political support. Changes to the Government, and therefore to government priorities, can impact material decisions that are taken by us. The implementation of Brexit and COVID-19 related restrictions has the potential to impact airline operations which may cause disruption to our passengers, impact immigration, cargo operations, our supply chain, and our people.

Risk mitigation

We continue to make a strong case for our place in aviation and the wider economy and the part we play in Global Britain, and we explain the benefits that our ability to meet the UK's demand for long-haul travel brings. Whilst a change in the Government's focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary. We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAH Board, which has implemented a structured approach to the identification and management of all risks related to Brexit and Government COVID-19 policy. With regard to Brexit, we have made preparations to ensure the continued safe and secure operation for passengers and cargo with a plan jointly created with stakeholders to deliver predictable and appropriate processes which minimise the pre and post Brexit impacts.

Competition

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. The impact of COVID-19 has closed many global aviation markets as governments seek to control the spread of the virus and led many airlines to materially reduce their flying schedules or even cease flying to some airports altogether. As a result, there is currently spare capacity across all of the airports in the 'London system' including Heathrow, and also across our European Hub competitors.

Risk mitigation

Our primary focus is to ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users, with no degradation to the experience of our passengers and colleagues despite the impact of COVID-19. Maintaining commercial strategies that enable us not only to remain affordable but will actually make us more competitive is also important to retain key passenger groups.

Net Zero Carbon

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow, working with the wider industry, must set firmly on a path to net zero and demonstrate real progress in this decade. Heathrow follows the TCFD recommendations and climate related risk is therefore considered under the following categories:

Transitional risks – Transitional risks relate to the decarbonisation of Heathrow and the aviation sector to achieve Net Zero carbon emissions. Political, consumer and investor attitudes to aviation's climate impacts will become more negative without tangible progress to cut emissions and confidence in the sectors Net Zero plan, threatening our ability to recover, operate and grow.

Physical risks – Physical risks relate to the resilience of our assets, operations and network to the negative impacts of climate change including more extreme weather events

Risk mitigation

The UK aviation sector, including Heathrow, has committed to Net Zero carbon and published a joint roadmap to get there. The aviation sector roadmap sets a clear industry goal for tackling climate change and focuses attention on the actions that will be needed to meet it. We published our 'Target Net Zero' strategy to guide our approach to decarbonisation and aligned to the broader aviation sector roadmap. 'Target Net Zero' frames the priorities and progress we plan to deliver in the short to medium term as well as what will be required to achieve net zero.

The significant priority is accelerating net zero flying in the 2020s by securing the right policies for Sustainable Aviation Fuel ('SAF') production at scale in the UK and building a high ambition coalition globally for net zero aviation and SAF. To ensure and support the delivery of our strategy, climate change has been embedded into our governance structures, business planning development and operational processes and is supported by employee training and targets. We operate ISO 14001 and 50001 management systems which commit us to continuous improvement.

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Directors' report *continued*

Financial stability

The HAHL Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies, the approval of funding and the implementation of funding and risk strategy to the HAHL Group Finance Committee. Senior management directly control day-to-day treasury operations on a centralised basis. The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the HAHL Group's business operations and funding. To achieve this, the Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

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

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

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

Risk mitigation

HAHL Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2021. As at 31 December 2020, the HAHL Group had cash and cash equivalents and term deposits of £3,930 million.

- e. **Counterparty credit**
The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

Subsequent event

Subsequent events are disclosed in note 9.

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgement is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office. The third-party indemnity provisions (which are qualifying third-party indemnity under the Companies Act 2006) are in place during the 2020 financial year and at the date of approving the financial statements and reports.

Independent Auditor

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

LHR Building Control Services Limited

Directors' report *continued*

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the appointment of the auditor PricewaterhouseCoopers LLP (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 he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

~~Approved by the Board and signed on its behalf of the Board by:~~



Trevor Rule
Director

27 July 2021

Company registration number: 03316215

LHR Building Control Services Limited

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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


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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

Approved by the Board and signed on its behalf of the Board by:



Trevor Rule
Director

27 July 2021



Independent auditors' report to the members of LHR Building Control Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, LHR Building Control Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: statement of financial position and statement of changes in equity as at 31 December 2020; statement of comprehensive income for the year then ended; the accounting policies; the significant accounting judgements and estimates; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the going concern section of the accounting policies to the financial statements concerning the company's ability to continue as a going concern. The wider Heathrow group has been significantly impacted by the COVID 19 pandemic which has resulted in a rapid deterioration in passenger traffic and cash flows. The group's forecast and projections assume a continued phased increase in passenger forecast which represents a significant reduction to pre-pandemic revenue levels, along with cost saving measures and reductions in capital expenditure. In the event there are further waves of the pandemic, or the implementation or continuation of lockdown periods, leading to further travel restrictions being imposed worldwide, the wider Heathrow group, whilst having sufficient liquidity, may require further covenant waivers in respect to the group interest cover ratio measured as at 31 December 2021. These conditions, along with the other matters explained in note the going concern section of the accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

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

Reporting on other information

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

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

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

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

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Heathrow Airport's CAA operating license being revoked, breaches of environmental regulations, adherence to data protection requirements, UK tax legislation not being adhered to and non-compliance with employment regulations in the UK, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's

incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the group's legal team, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or those posted by unexpected users.
- Challenging assumptions and estimates made by management in judgemental areas.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Emma Sowerby (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
27 July 2021

LHR Building Control Services Limited**Statement of comprehensive income for the year ended 31 December 2020**

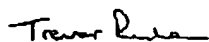
| | | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--------------------------------------|-------------|--|--|
| | <i>Note</i> | £'000 | £'000 |
| Revenue | 1 | 449 | 424 |
| Operating costs | 2 | (423) | (397) |
| Operating profit | | 26 | 27 |
| Finance income | 3 | 28 | 31 |
| Profit before taxation | | 54 | 58 |
| Taxation (charge)/credit | 4 | (13) | 3 |
| Profit for the financial year | 8 | 41 | 61 |

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

LHR Building Control Services Limited**Statement of financial position as at 31 December 2020**

| | Note | 31 December 2020 £'000 | 31 December 2019 £'000 |
|-----------------------------------|------|---------------------------|---------------------------|
| Assets | | | |
| Non-current assets | | | |
| Trade and other receivables | 5 | 1 | 1 |
| | | 1 | 1 |
| Current assets | | | |
| Trade and other receivables | 5 | 1,483 | 1,431 |
| | | 1,483 | 1,431 |
| Total assets | | 1,484 | 1,432 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 6 | (336) | (325) |
| Net assets | | 1,148 | 1,107 |
| Capital and reserves | | | |
| Share capital | 7 | - | - |
| Retained earnings | 8 | 1,148 | 1,107 |
| Total shareholders' equity | | 1,148 | 1,107 |

The financial statements of LHR Building Control Services Limited (Company registration number: 03316215) from page 14 to 24 were approved by the Board of Directors and authorised for issue on 27 July 2021. They were signed on its behalf by:



Trevor Rule
Director

LHR Building Control Services Limited**Statement of changes in equity for the year ended 31 December 2020**

| | <i>Note</i> | Attributable to owners of the Company | | |
|---|-------------|--|--------------------------|--------------|
| | | Share Capital | Retained earnings | Total |
| | | £'000 | £'000 | £'000 |
| 1 January 2019 | | - | 1,046 | 1,046 |
| Total comprehensive income for the year | | - | 61 | 61 |
| 31 December 2019 | | - | 1,107 | 1,107 |
| Total comprehensive income for the year | 8 | - | 41 | 41 |
| 31 December 2020 | 8 | - | 1,148 | 1,148 |

LHR Building Control Services Limited

Accounting policies for the year ended 31 December 2020

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

Statement of compliance

These financial statements have been prepared and approved by the directors in compliance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102').

The Company

The Company is a private company limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. The Company's immediate parent undertaking is LHR Airports Limited for which consolidated financial statements are prepared. The ultimate controlling undertaking for which consolidated financial statements is prepared is the FGP Topco Limited.

Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with Section 1A of Financial Reporting Standard 102 (FRS 102) and the Companies Act 2006, and are presented on the basis of the historical cost convention.

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

The Company has elected to adapt the statutory formats prescribed in the Accounting Regulations for the primary financial statements as permitted by FRS 102 and the Accounting Regulations, allowing for a consistent format to be applied in line with the presentation of the consolidated accounts.

The Company has adopted the following standard that is relevant to these financial statements:

- IAS 39 'Financial Instruments: Recognition and Measurement', in compliance with FRS 102. As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102 (s.11 and s.12).

Exemption for qualifying entities under FRS 102

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its parent, Heathrow Airport Holdings Limited and FGP Topco Limited, which may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions, therefore, the company has taken advantage of the following exemptions in its individual financial statements:

- the requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including:
 - categories of financial instruments,
 - items of income, expenses, gains or losses relating to financial instruments, and
 - exposure to and management of financial risks.
- the requirement from disclosing related party transactions with entities that are wholly-owned subsidiaries of the FGP Topco Limited Group
- from providing certain other disclosures regarding key management personnel.

Going concern

The Directors have prepared the financial information presented within these financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('Heathrow SP') and Heathrow Finance Plc ('Heathrow Finance'). The Directors have considered the wider group when assessing going concern. In assessing the going concern position, the Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months. The Directors have also considered the period beyond 12 months to December 2022.

LHR Building Control Services Limited

Accounting policies for the year ended 31 December 2020 *continued*

Going concern *continued*

Cash flow and liquidity *continued*

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.4 billion of debt to the approval date of these financial statements across the capital structure in bond format. New €500 million, C\$650 million, C\$300 million and AUD125 million Class A transactions and a £350 million Class B transaction were successfully executed during the first half of 2021. Consequently, Heathrow SP held cash of circa. £4.5 billion as at 30 June 2021. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2021 is £1.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa. £4.8 billion available. No debt matures outside of Heathrow SP for the next 12 months from 30 June 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the base case cash flow forecast or until at least October 2022 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Nevertheless, continued low levels of traffic and cash flows have put covenants at Heathrow Finance under strain and the corresponding impact on the covenants associated with financing arrangements has been carefully considered when modelling the impacts of COVID-19.

Modelling the impact of COVID-19

The Directors have modelled future cash flows for the period beyond 12 months to December 2022 to include the impact of COVID-19 related disruption and have considered the following:

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

In their assessment, Directors have included the impacts of several important actions implemented in 2020 to reduce operating expenditure including temporarily consolidating our operations in fewer terminals, multiple contract renegotiations, permanent changes in terms and conditions, freezing recruitment, removing all non-essential costs and adjusting our capital expenditure. Directors have also included the impacts of actions implemented in 2021 to reprofile interest payments, which has created interest savings of £358 million, in their assessment.

In modelling the impact of COVID-19, there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of our forecasting is therefore inherently subjective. As reported in the June 2021 Investor Report, the Group has recently updated its financial modelling under the base case scenario to assume passenger traffic for 2021 will decline 2.7% compared to 2020 actual passenger numbers of 22.1 million, to 21.5 million passengers (a decrease of 73.4% compared to 2019). Despite the decline in passengers compared to 2020, Group EBITDA is expected to increase 23% to £332 million in 2021 driven by the annualised benefit of cost reduction initiatives implemented in 2020 and management actions taken to optimise revenue.

To build the base case forecast of 21.5 million passengers in 2021 we assumed the implementation of a testing regime and a large-scale vaccine roll out during 2021 to drive the traffic increase compared to 2020. We then defined the stages of recovery, with key drivers being COVID-19 control, roll-out of a vaccine and reopening of key travel corridors. The level of demand at each stage of recovery is overlaid using data on actual passenger numbers. This is done at a granular level splitting into geographical markets and purpose of travel. Thereon, a timeline for moving between stages using latest information on testing and vaccine roll out and adjusting this for each of the geographical regions was taken into account. This approach is calibrated against information from airlines on planned schedules. The base case of passenger numbers for 2022 forecasts an improvement in passenger numbers with a graduated return to pre-pandemic levels, however the forecasted 2022 passengers remain significantly below 2019.

Under the base case scenario, the Group will meet all covenants associated with its financial arrangements.

LHR Building Control Services Limited

Accounting policies for the year ended 31 December 2020 *continued*

Going concern *continued*

Stress testing

As explained above, even under the most extreme scenario of no revenue, the Group has sufficient liquidity to meet all forecast cash flow needs until at least October 2022.

Directors have stress tested the base case, focusing in particular on the next annual covenant compliance date of 31 December 2021, by elongating the timing of the implementation of the testing regime, the rollout of vaccination programmes and the transition through the stages of recovery. This is reflected in further decreases in passenger numbers and a resulting drop in EBITDA and operating cash flow. Although no covenant breach is forecast under our base case scenario, the headroom to our ICR covenant is expected to be limited given ongoing pressures on our cash flow generation, with a reduction of £66m in EBITDA likely to lead to a breach of the Heathrow Finance ICR.

The stress test scenario representing a 'severe but plausible' downside models 13.0 million passengers in 2021 and a 71% fall in EBITDA in 2021 compared to the base case, arising from further COVID-19 related disruption due to uncertainty associated with reopening of travel corridors. This 'severe but plausible' scenario is expected to cause the Group to breach minimum levels required for ICR covenant compliance at Heathrow Finance.

In 2020, management agreed a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which resulted in no breach occurring in relation to the financial year ended 31 December 2020. On 19 July 2021, the Group launched a public consent process to seek approval from Noteholders for a waiver of the Heathrow Finance ICR for the period ending 31 December 2021. The Group has also commenced discussions with its private lenders and investors over the same request to waive the Heathrow Finance ICR for the period ending 31 December 2021. The process for seeking approval from all creditors is expected to complete in August 2021, therefore after the approval date of these interim consolidated financial statements. Whilst directors are confident that they will receive support from creditors, there is no certainty that a further covenant waiver will be agreed, and this indicates the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern.

Conclusion

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

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

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry, which may result in the Group needing to take further action, including seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and Company's ability to continue as a going concern.

These financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

COVID-19

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

Revenue

Revenue represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and arises primarily from the monitoring and enforcement of compliance with the Building Regulations 2010 by the Groups, or which is carried out by the Group companies within England and Wales.

The directors consider the business has only one segment. All of the Company's revenue arises in the United Kingdom.

LHR Building Control Services Limited

Accounting policies for the year ended 31 December 2020 *continued*

Government grants

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

The Company has utilised the Government's Job Retention Scheme. The grant income received has been accounted for in accordance with FRS 102 (Section 24) and has been recorded as Other Income in the Income Statement.

Finance income

Finance income is recognised in the income statement in the period in which it is incurred.

Trade and other receivables

Trade and other receivables are recognised initially at cost less any provision for impairment.

Trade and other payables

Trade and other payables are recognised initially at cost and subsequently measured at amortised cost using the effective interest rate method.

Amounts owed to group undertakings

Amounts owed to group undertakings are repayable on demand and are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost.

Operational staff costs

All employees of the Company are employed directly by LHR Airports Limited which also acts as the provider of corporate and administrative services to the Company. LHR Airports Limited is the administrator and sponsor of the related defined benefit pension schemes and grants all employee benefits.

LHR Airports Limited charges the Company for the provision of services in relation to staff costs, including wages and salaries, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of LHR Airports Limited in providing the services.

The Company has utilised the Government's Job Retention Scheme. The grant income received has been accounted for in accordance with FRS 102 (Section 24) for furloughed personnel and has been offset against existing furloughed staff costs incurred in line with our existing accounting policy in the Income Statement.

Current and deferred taxation

The tax (charge)/credit for the year comprises current and deferred tax and is recognised in the statement of comprehensive income.

Current tax liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Group relief claimed/surrendered between UK companies is paid for at the applicable tax rate of 19% (2019: 19%) for the year.

In accordance with FRS 102 Section 29 timing differences, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse.

Share capital

Ordinary shares are classified as equity and are recorded at the fair value of proceeds received, net of direct issue costs.

LHR Building Control Services Limited

Significant accounting judgements and estimates for the year ended 31 December 2020

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

Critical judgements in applying the Company's accounting policies

Going concern

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

Key sources of estimation uncertainty

Long-term contract accounting

From time to time the Company will undertake project work which may span multiple periods and financial years. For such projects, management will make a best estimate of percentage completion at year balance sheet date to correctly apportion the overall revenue. In the current year there was one (2019: one) project spanning multiple financial years. Management's split of contract revenue is reflected in the total revenue for the current and prior years and in revenue deferred on the balance sheet. Management do not expect that a change in the split would result in a material change to the financial results.

LHR Building Control Services Limited**Notes to the financial statements for the year ended 31 December 2020****1 Revenue**

The directors consider the business has only one segment. All of the Company's turnover arises in the United Kingdom and relates to continuing operations. Additional details of the turnover generated by each of the Company's key activities are given below:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|--|---|---|
| Revenue | | |
| Building regulation income from Heathrow Airport | 374 | 375 |
| Other income from third parties ¹ | 75 | 48 |
| | 449 | 423 |

¹ Relates to building work in third party property and retail outlets and £18k in relation to furlough receipts (Job Retention Scheme) in 2020 (2019: nil).

2 Operating costs

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|-------------------------------|---|---|
| Wages and salaries | 335 | 287 |
| Social security | 38 | 36 |
| Other staff related costs | 24 | 28 |
| Employment costs ¹ | 397 | 351 |
| General expenses | 17 | 37 |
| Bad debt | 5 | - |
| Consultancy | 4 | 9 |
| | 423 | 397 |

¹ Employment costs include recharges from LHR Airports Limited for employee services to the Company.

Auditor's remuneration

Audit fees are recharged in accordance with the Group Shared Services Agreement ('SSA') into its operating entities. This entity is not an operating entity and is therefore not party to the SSA and receives no recharge of the audit cost. However, the Company's auditor received £4,000 (2019: £5,000) as remuneration for the audit of the Company's financial statements, the cost of which is borne by Heathrow Airport Limited.

Employee information

The Company has no employees (2019: none). The monthly average number of employees of LHR Airports Limited engaged in the operation of the Company during the year was five (2019: four) and their cost is recharged into the Company.

Director's remuneration

Emma Gilthorpe and Christopher Garton were directors of a number of companies within the Heathrow Airport Holdings Group during the year. Her remuneration for the year ended 31 December 2020 was disclosed in the financial statements of Heathrow Airports Limited. Trevor Rule, Edgar Vila Pouca, Amanda Owen and John Arbuckle were paid by, but are not directors of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided.

During the year, five of the directors (2019: three) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2019: one) had retirement benefits accruing to them under a defined contribution scheme.

3 Finance

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|-----------------------------|---|---|
| Finance income ¹ | 28 | 31 |

¹ Relates to interest receivable from LHR Airports Limited at 1.5% over the Bank of England base rate.

LHR Building Control Services Limited**Notes to the financial statements** for the year ended 31 December 2020 *continued***4 Taxation charge**

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|--|---------------------------|---------------------------|
| UK corporation tax | | |
| Group relief payable | (13) | (11) |
| Adjustments in respect of prior periods | - | 14 |
| Taxation (charge)/credit for the year | (13) | 3 |

Reconciliation of tax expense

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 19% (2019: 19%). The actual tax charge for the current year and prior periods differs from the standard rate for the reasons set out in the following reconciliation:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|--|---------------------------|---------------------------|
| Profit before tax | 55 | 58 |
| Tax calculated at the UK statutory rate of 19% (2019: 19%) | (11) | (11) |
| Effect of: | | |
| Non-deductible expenses | (2) | - |
| Adjustments in respect of prior periods | - | 14 |
| Taxation (charge)/credit for the year | (13) | 3 |

The total tax charge recognised for the year ended 31 December 2020 was £13,000 (2019: £3,000 tax credit). Based on a profit before tax for the year of £55,000 (2019: £58,000), this results in an effective tax rate of 23.6% (2019: negative 5.3%). The tax charge is more (2019: less) than implied by the statutory rate of 19% (2019: 19%) due to non-deductible expenses (2019: adjustments in respect of prior periods).

The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the government in Finance Act 2020. The headline UK corporation tax rate of 19% was maintained and given Royal Assent on 22 July 2020.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Other than these changes, there are no items which would materially affect the future tax charge.

5 Trade and other receivables

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|--|---------------------------|---------------------------|
| Non-current | | |
| Deferred tax asset (a) | 1 | 1 |
| | 1 | 1 |
| Current | | |
| Amounts owed by group undertakings – interest bearing ¹ | 1,472 | 1,422 |
| Trade debtors ² | 8 | 6 |
| Other receivables | 3 | 3 |
| | 1,483 | 1,431 |
| Total receivables | 1,484 | 1,432 |

¹ 'Amounts owed by group undertakings - interest bearing' are receivable from an entity within the wholly-owned group and is receivable on demand. Balances accrue interest at the Bank of England base rate +1.5%.

² No provision is held against trade debtors in either year. The balances relate to a small number of recurring customers and are considered to be fully recoverable.

(a) Analysis of deferred taxation

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|--|---------------------------|---------------------------|
| Excess of capital allowances over depreciation | 1 | 1 |
| Deferred tax asset | 1 | 1 |

Provision has been made for deferred taxation in accordance with FRS 102.

LHR Building Control Services Limited**Notes to the financial statements** for the year ended 31 December 2020 *continued***5 Trade and other receivables** *continued*

The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the government in Finance Act 2020. The headline UK corporation tax rate of 19% was maintained and given Royal Assent on 22 July 2020. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Other than these changes, there are no items which would materially affect the future tax charge.

6 Trade and other payables

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---------------------------|---------------------------|
| Amounts owed to group undertakings – interest free ¹ | 319 | 314 |
| Group relief payable | 13 | 11 |
| Accrued income | 4 | - |
| | 336 | 325 |

¹ 'Amounts owed to group undertakings – interest free' are amounts due to wholly owned companies within the group and is repayable on demand.

7 Share capital

| | £ |
|---|---|
| Called up, allotted and fully paid | |
| 1 January and 31 December 2019: | |
| 1 ordinary share of £1 | 1 |

8 Retained earnings

| | £'000 |
|-------------------------|--------------|
| 1 January 2019 | 1,046 |
| Profit for the year | 61 |
| 31 December 2019 | 1,107 |
| Profit for the year | 41 |
| 31 December 2020 | 1,148 |

9 Subsequent events

There are no subsequent events.

10 Ultimate parent undertaking

The immediate parent undertaking of the Company is LHR Airports Limited, a company registered in England and Wales.

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

The Company's results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2020 which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2020.

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