

# **ADI Finance 1 Limited**

## **Annual report and financial statements for the year ended 31 December 2022**



## **ADI Finance 1 Limited**

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## ADI Finance 1 Limited

### Officers and professional advisers

#### Directors

Ahmed Ali Al-Hammadi

Stuart Baldwin

Christopher Beale

Resigned 9 May 2023

Olivier Fortin

Luke Bugeja

Michael Powell

David Xie

Raymond Chan

Appointed 9 May 2023

Jinhong Chen

(Alternate to David Xie) – Resigned 30 June 2022

Samuel Coxe

(Alternate to Christopher Beale) – Resigned 20 May 2022

Deven Karnik

(Alternate to Ahmed Ali Al-Hammadi)

Tom Kelly

(Alternate to Michael Powell) – Resigned 1 July 2022

Kamil Burganov

(Alternate to Stuart Baldwin) – Resigned 26 January 2022

Chao Wang

(Alternate to David Xie) – Appointed 30 June 2022 and resigned 30 November 2022

Jessie Jin

(Alternate to Stuart Baldwin) – Appointed 26 January 2022

Mary Ann Hogan

(Alternate to Michael Powell) – Appointed 20 July 2022

Benjamin Catt

(Alternate to Christopher Beale) – Appointed 29 September 2022 and resigned 9 May 2023

Ben Niu

(Alternate to David Xie) – Appointed 30 November 2022

Richard Hedley

(Alternate to Raymond Chan) – Appointed 9 May 2023

William Loc

(Alternate to Raymond Chan) – Appointed 9 May 2023

#### Registered office

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TW6 2GW

#### Independent auditors

PricewaterhouseCoopers LLP

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Watford, Hertfordshire

WD17 1JJ

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#### Bankers

Lloyds Bank plc

1st Floor

10 Gresham Street

London

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## ADI Finance 1 Limited

### Strategic report

The directors of ADI Finance 1 Limited (the 'Company') present their strategic report for the year ended 31 December 2022.

#### Principal activities

The Company is involved in the financing activities of its parent entity (FGP Topco Limited) and in financing the on-going operations of the Heathrow Airport Holdings Limited Group (the 'HAHL Group') through its indirect subsidiary, Heathrow Airport Holdings Limited. The directors of the Company discharge their duties in accordance with section 172 of the Companies Act 2006 and with regard to the matters contained therein in the context of furthering the strategic objectives and promoting the success of the FGP Topco Limited Group (the 'FGP Topco Group') as a whole. Further information on the strategy of the FGP Topco Group can be found in the FGP Topco Limited Strategic report contained within the annual report and financial statements of that entity for the year ended 31 December 2022.

#### Business review

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

Results and dividends are discussed in the Directors' report on page 11.

#### Internal controls and risk management

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

##### 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;
- 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 2022, 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.

## ADI Finance 1 Limited

### Strategic report *continued*

#### Risk management *continued*

The Heathrow Airport Holdings Limited Board (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.

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

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets every six weeks. 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 and management. A Principal Risk is a risk that has been identified by the HAHL Board, its formal committees, the Executive Committee, or the Risk and Assurance Committee, as an important risk that fundamentally affects the business's ability to deliver on its overarching objectives. A Principal Risk is assessed according to the likelihood, consequence and velocity by which the risk may impact Heathrow.

#### Principal risks

The risks outlined below are the principal strategic, corporate and operational risks identified. 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.

#### A Safe and Secure Operating Environment

##### Principal risk

An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks and with the pace and rate of our growth as we build back capacity these risks increase. Nationally, COVID-19 has resulted in a worsening of physical and mental health and external pressures including the war in Ukraine and cost of living crisis are adding to people's anxiety.

If we do not set and strive for the highest standards of fire, safety, health and wellbeing, we risk causing harm to our colleagues and stakeholders, compromising our service to passengers, and damaging our reputation and ultimately our business performance.

We therefore value, above all else, the health and safety of colleagues, passengers and anyone else affected by the airport's activities. Our focus on health and safety is not just the right thing to do, it is the foundation of an efficient operation, a secure airport and a sustainable business.

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

##### Risk mitigation strategy

Our risk mitigation strategy is built from our fire, safety, health and wellbeing framework of safe and healthy 'place', 'work', 'team' and 'decisions'.

Place – We ensure our physical environment and assets are designed, built, used, and maintained so that they don't cause harm. Our change control processes are designed to ensure that new equipment, technology, and processes are introduced safely.

## ADI Finance 1 Limited

### Strategic report *continued*

#### Principal risks *continued*

##### **A Safe and Secure Operating Environment *continued***

Work – Our, fire, health and safety management systems are designed to ensure a planned and controlled way of working. We set Fire Health and Safety ('FHS') standards for the airport community and influence industry standards working with UK and international regulators and industry bodies. Our risk assessment processes adopt the hierarchy of controls and we set FHS standards for the airport community. Governance and assurance processes are used to ensure that controls around health-and-safety risks remain effective, and continuous improvement is encouraged.

Team – Consultation, engagement and collaboration are key to a safe and healthy team. We work closely with our Trade Union partners on health and safety matters and engage colleague views through our engagement surveys. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles. We collaborate across Team Heathrow through a range of mechanisms, including the Team Heathrow Safety Council and Network, to drive standards and performance. We held our first Heathrow Airport Safety Summit with Team Heathrow in June 2022 and started to measure safety culture across organisations operating at the airport.

Decisions – In the last 12 months our focus has been on 'healthy minds' to ensure safe and healthy decision making. Our extensive range of health and wellbeing products and services has been further promoted this year resulting in increased utilisation, supplemented by the provision of mental fitness training for line managers and support for financial wellbeing. Over 60% of line managers within our Security function have received mental fitness training, providing practical tools so that line managers prioritise their own mental fitness and develop confidence in holding wellbeing conversations and signposting colleagues to appropriate support. Support for financial wellbeing includes practical support and access to one-to-one financial coaching.

We also have a confidential reporting line through which concerns of wrongdoing at work can be reported (Safecall).

We work with law enforcement and 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 Civil Aviation Authority ('CAA') and other domestic/international agencies.

#### **Information Security**

##### Principal risk

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

##### Risk mitigation strategy

Heathrow is a Critical National Infrastructure ('CNI') and therefore complies with The CAA "Cyber Security Oversight Process for Aviation" (CAP 1753) based on the National Cyber Security Centre's "Cyber Assessment Framework" and in turn is broadly aligned to the NIST Cyber Security Framework. The Regulator (CAADfT) requires that Heathrow achieve compliance with CAP1753, through the CAA ASSURE audit process.

Heathrow has top-down support for Cyber Security. It is an active topic at the Executive Committee and briefings are provided as required or requested. Regular reporting is also performed through reports at Executive/Board/Non-Executive risk committees. Cyber risk assessment is performed at a system, supplier, and departmental level, and rolled up into overall corporate risk management processes. Mandatory cyber and data privacy training is rolled out to colleagues annually. Monthly phishing awareness campaigns are run and tracked. Execution of Business Continuity Plans is managed through the Heathrow Resilience "Command and Control" process. We work with Strategic Security in partnership with governing bodies as part of our CNI status.

#### **Regulation Requirements**

##### Principal risk

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

## ADI Finance 1 Limited

### Strategic report *continued*

#### Principal risks *continued*

##### Regulation Requirements *continued*

###### Risk mitigation strategy

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 HAH Board on regulatory matters. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority. 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')

###### Principal risk

In June 2018 Parliament approved the Airports National Policy Statement ('ANPS') which sets out the policy framework for expansion at Heathrow Airport and is the primary basis for decision making on any development consent application for a new north-west runway. Heathrow was making considerable progress towards developing its Development Consent Order ('DCO') application to deliver a sustainable, affordable and financeable expanded Heathrow, including holding multiple consultations to seek feedback on its proposals. However, on 27 February 2020, the Court of Appeal concluded that the UK Government was required but had failed to take into account the Paris Climate Agreement when preparing the ANPS. The Court declared that the ANPS had no legal effect unless and until the UK Government carried out a review of the policy. Heathrow appealed against this decision and in December 2020, the Supreme Court unanimously held that the UK Government had acted lawfully when making the ANPS, overturning the Court of Appeal's decision. The judgment confirmed that the UK Government had properly exercised its discretion and had taken into account the Paris Climate agreement by having regard to the Climate Change Act 2008 in the ANPS. On 6 September 2021, the Secretary of State for Transport decided that it was not appropriate to review the ANPS at this time. Further confirmation of the status of the ANPS has been made through the May 2022 publication of "Flightpath to the Future" and the July 2022 publication of "Jet Zero Strategy". While work to expand Heathrow during COVID-19 was paused, the post pandemic period has shown the demand from airlines to fly from Heathrow, as well as how critical Heathrow is for the UK's trade routes. The Government's ANPS continues to provide policy support for Heathrow's plans for a third runway and the related infrastructure required to support an expanded airport and we are reviewing our options.

###### Risk mitigation

In 2020 we appealed the Court of Appeal's judgement 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 continuing to engage with the Government, the CAA and other stakeholders on the next steps to progress our plans.

Heathrow remains committed to a long-term sustainable expansion. When demand returns to pre COVID levels, meeting that demand as the UK's hub airport will be essential to a country with global and levelling up ambitions.

##### Reduction in global demand and revenues

###### Principal risk

Operational ecosystem challenges impacting capacity rebuilding and revenue growth.

COVID-19 has led to an unprecedented reduction in passenger volumes and revenues, which the industry was forced to respond to with workforce reductions and temporary closure of two terminals to weather the pandemic. The lack of targeted industry support and unstable travel policies (quarantines, testing requirements) by the government exacerbated the industry's ability to plan for recovery. Brexit has impacted on worker availability, particularly in relation to ground handling staff.

Continued policy inconsistency on VAT Free shopping provides significant revenue uncertainty and lack of competitive parity with EU airports. The Next Generation Security Project is expected to have a negative impact on aviation capacity and retail revenue from 2023 onwards.

## ADI Finance 1 Limited

### Strategic report *continued*

#### Principal risks *continued*

##### **Reduction in global demand and revenues** *continued*

Significant potential revenue impacts are expected relating to workforce challenges requiring capacity restrictions and removal of VAT Free shopping.

Revenue growth may be inhibited by the lack of certainty over consumer demand recovery in 2023-2024, driven by high inflation, a slowdown in economic growth, impact of a recession and pressure on consumer spending. A limited capacity for growth dependent on slot trading combined with the highest aviation taxes in Europe ('APD') continue to put pressure on airports and hub airlines.

#### Risk mitigation strategy

##### Aviation

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

1. Slot Strategy in place to secure desired slot recommendation for winter 22, summer 23 and for the future, with advocacy plan also in place to influence Department for Transport, Airport Council International ('ACI') (World and Europe), International Air Transport Association ('IATA') and other stakeholders to align to Heathrow's position.
2. 2022 – 2026 Network Strategy in place to target new routes, grow market share and competition in key markets and protect weaker performing routes.
3. Senior engagement and account plans in place with key airlines to rebuild relations and accelerate collaboration, post COVID-19.
4. 2022 – 2026 Aviation Strategy in place to optimise revenues generated from Aviation with the goal of delivering sustainable growth, increased hub connectivity both globally and domestically and diversifying revenue.
5. Worked with Airport Coordination Limited ('ACL') (and Ops Planning on pre-season schedule optimisation to maximise capacity where resources are limited.
6. Industry monitoring via daily updates from CAPA (market intelligence for the aviation and travel industry), media cuts and other industry events, as well as attendance at Routes (network) and IATA (slots and cargo) conferences.
7. Close alignment internally with Space, Retail and Property teams to optimise commercial opportunities while maintaining alignment with Security Project.

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

#### **Liquidity and ability to access finance**

##### Principal risk

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

#### Risk mitigation strategy

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 Business Planning and Treasury team who have robust procedures in place to ensure that the best quality investment decisions are made, and that investments can be appropriately financed.

#### **Resilience of Team Heathrow**

##### Principal risk

The COVID-19 pandemic has had a significant impact on the aviation industry, as well as on the wider eco-system of key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that the level of passengers and Air Traffic Movement growth exposes the gaps in operational resilience across the wider Team Heathrow, impacting on our collective ability to provide the safety, resilience, service levels and passenger experience our passengers expect.

## ADI Finance 1 Limited

### Strategic report *continued*

#### Principal risks *continued*

##### **Resilience of Team Heathrow** *continued*

Following the removal of government restrictions, both in the UK and globally, Heathrow and the wider aviation sector has experienced a rapid increase in passenger demand. Airports, including Heathrow, and their partners and suppliers, have experienced significant challenges in ensuring sufficient resources are available to support rapidly increasing demand, placing particular challenges on key parts of the passenger journey at peak times – security, airline ground-handling and immigration.

##### **Risk mitigation strategy**

We continue to monitor and build on our operational insight and data to ensure we have capacity and resource ready ahead of demand with planned responses. We have developed a build back capacity programme led by our Chief Solutions Officer to specifically address pain points and risk areas around resilience. This programme reviews resourcing capacity across Heathrow's ecosystem and measures short and medium-term forecasting to enable capacity planning. We work closely with our stakeholders and airlines undertaking regular reviews via the capacity sub-group. This includes seasonal peaks and flying schedules.

We continue to work closely with our airline customers, retailers and wider stakeholders. 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). 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**

##### **Principal risk**

**Systems** – Technology is evolving rapidly. To meet the needs of our business we must constantly adapt to our internal and external requirements. Existing systems and processes become unsuitable, outdated and need to evolve so that we can remain competitive, effective and efficient.

**People** – Our people ensure that we operate effectively and efficiently. External and internal requirements put pressure on colleagues. This pressure has increased as a result of growth and associated workload, cost of living and the challenging external resourcing market. Recruitment demand remains high with vacancies in the UK at over 1.2 million (Oct 2022). Labour market supply is low, combined with economic inactivity being at the highest level in at least 30 years (2.49 million – Oct 2022).

##### **Risk mitigation strategy**

**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 October 2021 we launched our new cloud financial and people ERP system to enable working in a simpler, more agile and cost-effective way. Moving to a cloud-based system enables us to receive quarterly upgrades to ensure it remains modern and relevant and provides the opportunity for continuous improvement and benefits.

**People** – We continue to invest in our people and have a strategy to ensure the development of talent and careers at Heathrow. 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. In September 2022, we launched our new leadership development programme. It has been designed to help leaders address the needs of our colleagues in light of the changing landscape; and enable them to better understand the impact of their leadership style. Talent and criticality of roles and individuals are reviewed regularly. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.

##### **Political environment**

##### **Principal risk**

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

## ADI Finance 1 Limited

### Strategic report *continued*

#### Principal risks *continued*

##### Political environment *continued*

###### Risk mitigation strategy

We continue to make a strong case for our place in the wider economy and the part we play in a successful 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 and their 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 HAHL Board, which has implemented a structured approach to the identification and management of all risks related to changing Government policy.

#### Competition

##### Principal risk

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 disrupted aviation and lower passenger numbers means that rival airports have more capacity and therefore greater potential to compete with Heathrow. In addition, Heathrow's charges increased significantly in 2022, potentially reducing our competitive advantage compared to other airports in the London system and our European hub competitors. Heathrow will need to continue to deliver great value to our airlines in order to retain them at these higher charges.

##### Risk mitigation strategy

Our primary focus is to ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users and build back capacity so that we can deliver the throughput and service levels that we did before COVID-19. Maintaining commercial strategies that enable us to deliver great value to airlines and consumers is key to improving competitiveness and retaining key passenger groups and partners.

#### Climate change and net zero carbon

##### Principal risk

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow, working with the wider industry must demonstrate real progress towards achieving the sector's net zero goal in this decade. Heathrow has implemented the Task Force for Climate related Financial Disclosures ('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 deliver the sector's 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.

These risks are presented in greater detail in the TCFD section of the HAHL Group annual report and financial statements which can be found at [www.heathrow.com/company/investor-centre](http://www.heathrow.com/company/investor-centre).

##### Risk mitigation strategy

Policy and global alignment to transition the aviation sector to net zero carbon emissions by 2050. We have been working with relevant aviation stakeholders to promote policies to scale up sustainable aviation fuel ('SAF'), to increase aircraft efficiency, and to support the development of zero emissions aircraft.

In November 2022, ICAO, the International Civil Aviation Organisation, formed by 193 member states, committed to net zero carbon emissions for international civil aviation by 2050. The building blocks of this commitment were the development of the required technical feasibility assessment combined with a robust consensus-driven approach for a global framework led by some member states, particularly the UK that developed an international aviation coalition climate ambition during its COP26 presidency. In 2021, the entire aviation industry had already committed to net zero carbon emissions by 2050, including IATA, the international industry airline body. Heathrow has committed to net zero carbon and, in February 2022, published our Net Zero Plan which guides our approach to decarbonisation. Our plan is aligned to the broader UK sector roadmap and sets clear goals and targets to cut emissions by 2030 and beyond.

## ADI Finance 1 Limited

### Strategic report *continued*

#### Principal risks *continued*

##### Climate change and net zero carbon *continued*

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. We have established net zero as a strategic programme in our H7 regulatory settlement period which ends in 2026. The programme, which includes over £200m of capital investment, will deliver the carbon emissions reductions we included in our plan, during this period. To ensure and support the delivery of our Net Zero Plan, climate change has been embedded into our governance structures, business planning development and operational processes and is supported by employee training and targets. We operate ISO 140001 and 50001 management systems which commit us to continuous improvement.

#### 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. Interest rate swaps are entered by the Group to mitigate to interest rate risk for the Group.

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.

HAHL Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, for at least 12 months from the approved date of these consolidated financial statements. As at 31 December 2022, the HAHL Group had cash and cash equivalents and term deposits of £3,012 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.

## ADI Finance 1 Limited

### Strategic report *continued*

#### Section 172 (1) statement

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

In discharging our section 172 duty we, the directors of the Company, have regard to such factors and take them into consideration when decisions are made. We also have regard to other factors which we consider relevant to the 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 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 HAHL Board. Group policies set by the HAHL Board are communicated to all group companies and we ensure that, when we are applying these group policies, we have due regard to our fiduciary duties and responsibilities as directors. 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 directors of the Company includes seven members of the HAHL Board, which enables the dissemination of core information about the business of the HAHL Group. There are also directors of the Company that attend the Audit Committee, which helps to provide foresight of the key principal risks affecting the HAHL Group and specifically those affecting the Company.

The Company's key stakeholders are its passengers, communities and the environment, 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 HAHL Group means that generally our stakeholder engagement takes place best 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 Group's 2022 annual report and financial statements.

During the year 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.

No dividends were recommended by the Directors of the Company. In making the decision we considered a range of factors. These include the long-term viability of the Company, its expected cash flow and financing requirements, the strength of the Company's balance sheet and the ongoing need for the business to support the safe and efficient operations over the long term.

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



**Luke Bugeja**  
Director

29 June 2023

## ADI Finance 1 Limited

### Directors' report

The directors present their annual report and the audited financial statements for ADI Finance 1 Limited (the 'Company') for the year ended 31 December 2022.

A review of the progress of the Company's business during the year, internal controls and risk management, principal business risks, likely future developments and financial stability are contained in the Strategic report on pages 2 to 10.

### Results and dividends

The loss after taxation for the financial year amounted to £32 million (2021: £13 million loss). The Company's net assets as at 31 December 2022 were £2,520 million (2021: £2,552 million).

No dividends were paid during the year ended 31 December 2022 (2021: £nil). No dividends were received during the year ended 31 December 2022 (2021: £nil).

The statutory results for the year are set out on page 17.

### Directors

The directors who served during the year and since the year end are as follows:

Ahmed Ali Al-Hammadi

Stuart Baldwin

Christopher Beale Resigned 9 May 2023

Olivier Fortin

Luke Bugeja

Michael Powell

David Xie

Raymond Chan Appointed 9 May 2023

Jinhong Chen (Alternate to David Xie) – Resigned 30 June 2022

Samuel Coxe (Alternate to Christopher Beale) – Resigned 20 May 2022

Deven Karnik (Alternate to Ahmed Ali Al-Hammadi)

Tom Kelly (Alternate to Michael Powell) – Resigned 1 July 2022

Kamil Burganov (Alternate to Stuart Baldwin) – Resigned 26 January 2022

Chao Wang (Alternate to David Xie) – Appointed 30 June 2022 and resigned 30 November 2022

Jessie Jin (Alternate to Stuart Baldwin) – Appointed 26 January 2022

Mary Ann Hogan (Alternate to Michael Powell) – Appointed 20 July 2022

Benjamin Catt (Alternate to Christopher Beale) – Appointed 29 September 2022 and resigned 9 May 2023

Ben Niu (Alternate to David Xie) – Appointed 30 November 2022

Richard Hedley (Alternate to Raymond Chan) – Appointed 9 May 2023

William Loc (Alternate to Raymond Chan) – Appointed 9 May 2023

### Going concern

The financial information presented within these financial statements has been prepared on a going concern basis with the absence of material uncertainty. The Company's annual report and financial statements for the year ended 31 December 2021 was prepared on a basis of going concern with material uncertainty. Since then the HAH Group has experienced strong passenger number growth. This growth provided significantly increased confidence over covenant compliance in future periods. We have a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. More detail can be found in the going concern statement on page 21.

### Company secretary

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

### Employment policies

The Company has no employees.

## ADI Finance 1 Limited

### Directors' report

#### Employee engagement statement

Details of how the Directors have engaged with employees can be found in the HAHL Group annual report and financial statements within the section 172 (1) statement.

#### Key performance indicators

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

#### Internal controls and risk management

The HAHL Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the HAHL Group's internal controls and risk management policies can be found on pages 2 to 10 in the internal controls and risk management section of the Strategic report.

#### Financial risk management objectives and policies

The HAHL Group's financial risk management objectives and policies, along with the HAHL Group's exposure to risk can be found on pages 2 to 10 in the Internal controls and risk management section of the Strategic report.

#### Subsequent events

Subsequent events are disclosed in Note 11.

#### 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 FGP Topco Group. The third-party indemnity provisions (which are qualifying third-party indemnity under the Companies Act 2006) are in place during the 2022 financial year and at the date of approving the financial statements and reports.

#### Independent Auditors

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

#### Statement of disclosure of information to the Auditors

Each of the persons who is a director at the date of approval of this Annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; 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 auditors are aware of that information.

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



**Luke Bugeja**  
Director

29 June 2023

Company registration number: 05723977

## ADI Finance 1 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 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 101 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 responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


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

### 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.

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



**Luke Bugeja**  
Director

29 June 2023

**ADI Finance 1 Limited**

# Independent auditors' report to the members of ADI Finance 1 Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, ADI Finance 1 Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: statement of financial position as at 31 December 2022; statement of comprehensive income and statement of changes in equity 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.

### Conclusions relating to going concern

*Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.*

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

## **ADI Finance 1 Limited**

### **Independent auditor's report to the members of ADI Finance 1 Limited** for the year ended 31 December 2022 *continued*

#### **Reporting on other information**

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

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

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

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

#### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

As explained more fully in the statement of directors' responsibilities, 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.

## ADI Finance 1 Limited

### Independent auditor's report to the members of ADI Finance 1 Limited for the year ended 31 December 2022 *continued*

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

- Discussions with; management, including representatives outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the group's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or those posted with unexpected words.
- Challenging assumptions and judgements made by management in its significant accounting estimates.
- Reading the Board minutes to identify any issues which could indicate non-compliance with laws and regulations.

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](http://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.

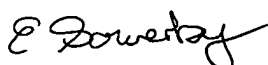
## Other required reporting

### 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.



Emma Sowerby (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Watford  
29 June 2023

## ADI Finance 1 Limited

### Statement of comprehensive income for the year ended 31 December 2022

		Year ended 31 December 2022	Year ended 31 December 2021
	<i>Note</i>	£m	£m
Dividend income	2	-	-
Finance costs	3	(32)	(13)
<b>Loss before tax</b>		<b>(32)</b>	<b>(13)</b>
Taxation	4	-	-
<b>Loss for the financial year</b>		<b>(32)</b>	<b>(13)</b>
<b>Total comprehensive loss for the year</b>		<b>(32)</b>	<b>(13)</b>

The notes on pages 25 to 28 form part of these financial statements.

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

## ADI Finance 1 Limited

### Statement of financial position as at 31 December 2022

	<i>Note</i>	<b>31 December 2022</b> <b>£m</b>	31 December 2021 <b>£m</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiary	5	5,109	5,109
Trade and other receivables	6	122	122
<b>Total assets</b>		<b>5,231</b>	5,231
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	7	(2,711)	(2,679)
<b>Total liabilities</b>		<b>(2,711)</b>	(2,679)
<b>Net assets</b>		<b>2,520</b>	2,552
<b>Capital and reserves</b>			
Called up share capital	8	505	505
Share premium reserve		364	364
Retained earnings		1,651	1,683
<b>Total shareholders' funds</b>		<b>2,520</b>	2,552

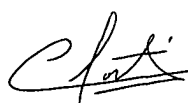
The notes on pages 25 to 28 form part of these financial statements.

The financial statements have been prepared in accordance with the provisions applicable to companies subject to Financial Reporting Standard ('FRS') 101 'Reduced Disclosure Framework'.

The financial statements of ADI Finance 1 Limited (Company registration number: 05723977) on pages 17 to 28 were approved by the Board of Directors on 29 June 2023 and signed on its behalf by:



**Luke Bugeja**  
Director



**Olivier Fortin**  
Director

**ADI Finance 1 Limited****Statement of changes in equity** for the year ended 31 December 2022

	<i>Note</i>	<b>Called up share capital £m</b>	<b>Share premium reserve £m</b>	<b>Retained earnings £m</b>	<b>Total £m</b>
1 January 2021		505	364	1,696	2,565
Loss for the financial year		-	-	(13)	(13)
<b>31 December 2021</b>		<b>505</b>	<b>364</b>	<b>1,683</b>	<b>2,552</b>
<b>Loss for the financial year</b>		<b>-</b>	<b>-</b>	<b>(32)</b>	<b>(32)</b>
<b>31 December 2022</b>		<b>505</b>	<b>364</b>	<b>1,651</b>	<b>2,520</b>

The notes on pages 25 to 28 form part of these financial statements.

## ADI Finance 1 Limited

### Accounting policies for the year ended 31 December 2022

The principal accounting policies applied in the preparation of the financial statements of ADI Finance 1 Limited (the 'Company') are set out below. These policies have been applied consistently to all the years presented unless otherwise stated.

#### The Company

ADI Finance 1 Limited is a private company, limited by shares, incorporated, domiciled and registered in the United Kingdom. Its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

#### Basis of accounting

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

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

The Company has taken advantage of certain disclosure exemptions in FRS 101 as its financial statements are included in the publicly available consolidated financial statements of FGP Topco Limited. The following disclosure exemptions have been taken:

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

The Company is not a financial institution and is therefore able to take advantage of exemption from all requirements of IFRS 7 'Financial Instruments: Disclosures' and from the disclosure requirements of IFRS 13 'Fair Value Measurement'. These financial statements present information about the Company as an individual entity only and not as a group.

Copies of those consolidated financial statements can be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

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

### Changes in accounting policy and disclosures

#### *(a) Amended standards adopted by the Company*

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

- Annual improvements to IFRS 2018-2020, effective 1 January 2022
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37), effective 1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16), effective 1 January 2022
- Reference to the Conceptual Framework (Amendments to IFRS 3), effective 1 January

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

#### Going concern

The Directors have prepared the financial information presented within the annual report and 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.

## ADI Finance 1 Limited

### Accounting policies for the year ended 31 December 2022 *continued*

#### Going concern *continued*

##### *Background*

The company is part of the wider Heathrow Group of companies. In considering the going concern assessment, the Directors have considered both the individual circumstances of the company but also the wider Group given the corporate structure, which involves activities and cash generation across the Group including within the main operating company, Heathrow Airport Limited. Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026. Due to its delays in making a final decision, the CAA put in place an interim tariff (the "2023 Interim Tariff") from 1 January 2023 to 31 December 2023 of £31.57 in nominal terms, ahead of a Final Decision which was subsequently published on 8th March 2023. This Final Decision provides an average H7 tariff of £23.06 in 2020 CPI real terms and has been arrived at based on a set of assumptions such as higher passenger numbers, lower operating costs and higher commercial revenues versus those forecast by the wider Heathrow Group, which has led to a lower tariff than the Group believes is appropriate. Whilst the H7 Final decision contains a new traffic risk sharing mechanism and other mechanisms to deal with asymmetric risk and cost uncertainty, they do not fully protect against lost cash flows and would lead to partial recovery of lost revenue over time.

This critical relationship between H7 prices and forecast passenger numbers, as well as the potential resultant impact to liquidity and debt covenant compliance have been considered in assessing the appropriateness of preparing this annual report and financial statements on a going concern basis.

The wider Heathrow Group is bound by two types of debt covenants, tested on 31 December each year: the Regulatory Asset Ratio ("RAR"), a measure of the ratio of consolidated nominal net debt to the Regulatory Asset Base ("RAB"); and Interest Cover Ratios ("ICR"), a measure of operating cashflows to debt interest charge. These covenants exist at different levels within the Group's Class A and Class B debt.

##### *Base case*

The Directors have considered the wider Heathrow Group when assessing going concern. In assessing the going concern position, the Directors have considered the regulatory uncertainty described above, as well as the potential impact of any further COVID-19 impacts on cash flow, liquidity and debt covenant compliance over the next 12 months.

- Forecast revenue and operating cash flows from the underlying operations, based on 2023 traffic forecasts.
- Forecast level of capital expenditure based on the CAA's H7 Final Decision.
- The overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

##### *Base case passenger forecast*

In modelling passenger number recovery from COVID-19, there remains a degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Nevertheless, passenger numbers have increased significantly in the first 5 months of 2023; with total passengers to 31 May being 95% of 2019 levels. Despite a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong.

##### *Base case tariffs*

The base case uses the CAA's Interim Tariff for the entirety of 2023, with a 2024 nominal tariff of £25.43 based on the tariff set out in the CAA's Final Decision. Under the base case, the Group will meet all covenants associated with its financial arrangements.

##### *Base case cash flow and liquidity*

The wider Heathrow Group can raise finance at both Heathrow SP Limited ("Heathrow SP") and Heathrow Finance plc ("Heathrow Finance"). Despite a continued challenging market, there continues to be confidence and support for the Group's credit with £546 million of new debt raised in FY22 in addition to the successful refinancing of the group's £1.38bn revolving credit facility in Q4 2022. No additional debt was raised in Q1. Consequently, Heathrow SP held cash of £1.1 billion as at 31 March 2023. Total debt maturity within Heathrow SP for the next 12 months from 31 March 2023 is £0.6 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of £2.3bn available at 31 March 2023. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

## ADI Finance 1 Limited

### Accounting policies for the year ended 31 December 2022 *continued*

#### **Going concern** *continued*

##### *Severe but plausible downside case*

The Directors are required to consider severe but plausible downside scenarios in the preparation of the annual report and financial statements. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers, particularly in a highly inflationary economic environment impacting the disposable income of passengers on cash flow generation, liquidity and debt covenant compliance.

Under the Group's downside scenario, the Directors have considered passenger numbers at the low end of Heathrow's 2023 and 2024 passenger forecast to be a severe but plausible outcome. This considers the Group's views of plausible impacts caused by reduced passenger confidence and other economic factors. The low range of passengers represents a 5% reduction against the base case. The tariff assumptions remain the same as in the base case.

#### *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 the annual report and financial statements and that it is accordingly appropriate to adopt a going concern basis with no material uncertainty for the preparation of these results.

#### **COVID-19**

The COVID-19 pandemic has had lesser impact in 2022, as compared to the financial years 2021 and 2020. This follows, improved trading conditions with increased passenger numbers as global borders have largely opened, travel restrictions and testing requirements removal, global roll out of vaccines and consumer confidence has started to return. The HAHL Group continued to operate 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 this background, the Company has performed a further review of its accounting policies and consider they remain appropriate. Some of the key points and clarifications resulting from this review are highlighted below.

The Company has reviewed any potential impairment indicators of both financial and non-financial assets, especially where operations have suffered due to COVID-19. As detailed in the Strategic report of Heathrow Airport Holdings Limited, the Company benefits from a wide customer base, which the Company considers provides greater financial security over the balances held within financial assets.

#### **Individual entity financial statements**

The Company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of FGP Topco Limited and it, and its subsidiary undertakings, are included in the consolidated financial statements of that company for the year ended 31 December 2022. The financial statements present information about the Company as an individual entity only and not as a group.

#### **Dividends receivable**

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

#### **Financing**

Interest payable and interest receivable are recognised in the Statement of total comprehensive income in the period in which they are incurred.

#### **Investments in subsidiaries**

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

## ADI Finance 1 Limited

### Accounting policies for the year ended 31 December 2022 *continued*

#### Intercompany loans receivable

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

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

#### Amounts owed to group undertakings

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

#### Current income tax

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

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

#### Share capital

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

#### Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the shareholders' right to receive payment of the dividend is established. Interim dividends are recognised when paid.

## **ADI Finance 1 Limited**

### **Significant accounting judgements and estimates for the year ended 31 December 2022**

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 post-pandemic recovery and regulatory uncertainty on the going concern assessment, was considered in some detail. Further information can be found within the 'Basis of preparation' section above.

#### **Key sources of estimation uncertainty**

##### **Investment impairment review CAA passenger tariff**

The Company tests for whether the Investment in Subsidiary balance has suffered an impairment on an annual basis. The investment impairment review has been completed incorporating management's judgement with regards to the outcome of the CAA passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026). The current regulatory business plan (Revised Business Plan Update 4 – "RBP Update 4") applies a CAA published tariffs for the H7 period. The tariff applied reflects the CAA charge tariff per Final Decision.

Cashflows beyond the H7 regulatory period as set out above, are determined using an estimated long-term WACC assumptions as ranging between 5%- 5.43% for H7, H9 and H10 regulatory periods.

Under the above scenario, there has been no impairment resulting.

## ADI Finance 1 Limited

### Notes to the financial statements for the year ended 31 December 2022

#### 1 Operating costs

##### *Directors' remuneration*

Directors of ADI Finance 1 Limited were directors of a number of companies within the FGP Topco Group. They were paid by Heathrow Airport Limited. The Directors do not believe it is possible to accurately apportion their remuneration to other individual companies within the Group based on services provided.

None of the directors who held office during the year received any emoluments from the Company.

During the year, none of the directors (2021: none) had retirement benefits accruing to them under a defined benefits scheme and none of the directors (2021: none) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2021: none) exercised any share options during the year in respect of their services to the Group and no shares (2021: none) were received or became receivable under long-term incentive plans.

##### *Employee information*

The Company has no employees (2021: nil).

##### *Auditors' remuneration*

Audit fees are recharged in accordance with the group Shared Services Agreements ('SSAs') into the operating entities. The Company is not an operating entity and is therefore not party to the SSAs and receives no recharge of the audit cost. However, the Company's auditors received £13,000 (2021: £15,000) as remuneration for the audit of the Company's financial statements, the cost of which was borne by Heathrow Airport Limited.

#### 2 Dividend income

During the year no dividends were received from the Company's subsidiary, ADI Finance 2 Limited (2020: £nil).

#### 3 Finance costs

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Interest payable on loans from group undertakings <sup>1</sup>	32	13
<b>Finance costs</b>	<b>32</b>	<b>13</b>

<sup>1</sup> These amounts relate to interest due on the loan from FGP Topco Limited.

#### 4 Taxation

The tax on the Company's loss differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting loss of the Company for the reasons as set out in the following reconciliation:

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Loss before tax	(32)	(13)
<b>Reconciliation of the tax credit/(charge)</b>		
Tax calculated at the UK statutory rate of 19% (2021: 19%)	6	2
Expenses not deductible for tax purposes	(6)	(2)
<b>Taxation for the year</b>	<b>-</b>	<b>-</b>

The total tax recognised for the year ended 31 December 2022 was £nil (2021: £nil). Based on a loss before tax for the year of £32 million (2021: £13 million loss), this results in an effective tax rate of nil (2021: nil).

The Finance Act 2021 substantively enacted the increase in corporation tax from 19% to 25%, to take effect from 1 April 2023.

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

## ADI Finance 1 Limited

Notes to the financial statements for the year ended 31 December 2022 *continued*

### 5 Investment in subsidiary

	£m
<b>Cost and net book value</b>	
31 December 2021 and 2022	<b>5,109</b>

The Company's immediate subsidiary is:

<b>Subsidiary</b>	<b>Nature of business</b>	<b>% of share capital held</b>	<b>Class of share</b>
ADI Finance 2 Limited <sup>1</sup>	Holding company	100	Ordinary shares of £0.08 each

<sup>1</sup> Registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW

The investment is in ADI Finance 2 Limited, a company registered and domiciled in England and Wales. ADI Finance 2 Limited is involved in the financing activities of its ultimate parent entity in the UK, FGP Topco Limited, and in financing the on-going operations of Heathrow Airport Holdings Limited, the holding company of a group of companies that provide and manage airport facilities at Heathrow airport. The Heathrow Airport Holdings Group is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

In the opinion of the directors, the aggregate value of the shares in the subsidiary undertaking is not less than the aggregate of the amount at which they are stated in the Company's Statement of financial position.

The Company reviews the investments in subsidiary's carrying value for impairment if there are any indications that the carrying value may not be recoverable. The recoverable amount, fair value less costs to sell, is calculated based on discounted cash flow projections of the business using a perpetuity model where the long-term nominal discount rate is 6.3%. Short term projections are based on the latest forecast approved by the Board and medium-term projections reflect the current regulatory business plan (Revised Business Plan Update 4 – "RBP Update 4"). The long-term projections are derived using an estimated long-term WACC assumptions.

From the review of the position at 31 December 2022, Management concluded that there is no impairment in the investments held.

### 6 Trade and other receivables

	31 December 2022 £m	31 December 2021 £m
<b>Non-current:</b>		
Amounts due from group undertakings – interest free <sup>1</sup>	<b>122</b>	122
<b>Total trade and other receivables</b>	<b>122</b>	122

<sup>1</sup> Amounts due from group undertakings mainly represent amounts of group tax relief receivable from FGP Topco Limited. The amount outstanding is on an interest free basis.

### 7 Trade and other payables

	31 December 2022 £m	31 December 2021 £m
<b>Non-current</b>		
Interest payable on amounts due to group undertakings	<b>355</b>	323
Amounts due to group undertakings – interest bearing <sup>1</sup>	<b>2,258</b>	2,258
Amounts due to group undertakings – interest free	<b>98</b>	98
<b>Total trade and other payables</b>	<b>2,711</b>	2,679

<sup>1</sup> Amounts due to group undertakings - interest bearing comprises amounts payable to FGP Topco Limited, the Company's parent, which carries interest at a fixed rate of 1.45%, with a maturity date of 1 June 2026.

## ADI Finance 1 Limited

### Notes to the financial statements for the year ended 31 December 2022 *continued*

#### 8 Called up share capital

	£m
<b>Authorised</b>	
31 December 2021 and 31 December 2022: 5,050,000,004 ordinary shares of £0.10 each	<b>505</b>
	<b>£m</b>
<b>Called up, allotted and fully paid</b>	
31 December 2021 and 31 December 2022: 5,050,000,004 ordinary shares of £0.10 each	<b>505</b>

#### 9 Dividends paid

No dividends were paid during the year ended 31 December 2022 (2021: £nil).

#### 10 Subsidiaries

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

##### **Direct subsidiaries:**

ADI Finance 2 Limited

##### **Indirect subsidiaries:**

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

<sup>1</sup> Incorporated in Jersey, but all profit taxed in the UK as a Controlled Foreign Company.

<sup>2</sup> Incorporated in Jersey, but UK tax resident.

<sup>3</sup> Incorporated in the Isle of Man, but all profit taxed in the UK as a Controlled Foreign Company.

<sup>4</sup> Dormant subsidiaries

Unless otherwise indicated, all subsidiaries are wholly-owned, incorporated in Great Britain and registered in England and Wales.

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

## ADI Finance 1 Limited

**Notes to the financial statements** for the year ended 31 December 2022 *continued*

### 11 Subsequent events

There are no subsequent events to disclose.

### 12 Ultimate parent undertaking

The immediate and 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%) (through its general partner, ART Asset Operations Limited)\*, 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 general partner of QS Airports UK, LP changed from Eagle Airports General Partner 2, Limited, an entity controlled by Alinda Capital Partners, to ART Asset Operations Limited with effect from 27 May 2023.

The Company's results are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2022.

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