Heathrow Airport Limited
Annual report and financial statements for the year ended 31 December 2015

Company registration number: 01991017

Heathrow Airport Limited

Contents

Heathrow Airport Limited

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Strategic report

Heathrow Airport Limited (the 'Company') owns Heathrow Airport ('Heathrow'). Until 31 August 2015, the Company was entitled to all receipts and income relating to Heathrow Express ('HEX') but the day-to-day operation of HEX was undertaken on behalf of the Company by Heathrow Express Operating Company Limited ("HEOC"), a subsidiary of the Company. On 1 September 2015, the beneficial ownership of the HEX business was transferred to Heathrow Express Operating Company Limited which has operated since that date as a Train Operating Company on an arm's length basis.

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

The financial statements of Heathrow Airport Limited are prepared in accordance with United Kingdom Generally Accepted Accounting Practice – Financial Reporting Standard 102 ('FRS 102'). These are the Company's second set of financial statements prepared in accordance with FRS 102, the transition date was 1 January 2012, and further explanation is set out on page 64 of the financial statements.

This strategic report is presented in five sections:

Business overview – an overview of the business model and strategy of the Company;

Management review – overview of the year ended 31 December 2015, along with the key factors likely to impact the Company in 2016;

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2015 and analysis of the financial position of the Company as at that date. The Company's accounting and reporting policies and procedures are also considered;

Leadership and governance – description of the Board of Directors (the 'Board) of Heathrow Airport Holdings Limited and Committees of the Board which provide overall leadership to the HAH Group; and

Internal controls and risk management – outline of the Heathrow Airport Holdings Group's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the Heathrow Airport Holdings Group Executive Committee and Board.

Business overview

Our business model

Heathrow is one of the best connected hub airports in the world, with over 80 global airlines operating regular scheduled flights to almost 250 destinations. Heathrow is the primary airport in the world's largest aviation market – demand to fly to and from London is 15% higher than the next largest city. With 75.0 million passengers in 2015, Heathrow is Europe's busiest and the world's fifth busiest airport.

Heathrow has maintained a strong focus over recent years on operational performance, improving the passenger experience and investing in new and upgraded facilities. Heathrow has invested approximately £11 billion transforming the airport over the last decade. The focus and investment has resulted in Heathrow Airport being named "Best Airport in Western Europe" by Skytrax for the first time in 2015 becoming one of the top performing major European hub airports in terms of overall passenger satisfaction.

Heathrow provides service to a range of market segments, including business and leisure travellers, direct and transfer passengers on long and short-haul routes, operated by a diversified range of major airlines. Heathrow is subject to economic regulation by the Civil Aviation Authority, which sets caps on the amount that Heathrow can charge airlines for using its facilities. This price setting mechanism provides significant cash flow predictability within each regulatory period, with the current regulatory period ending December 2018. As well as earning income from services to airlines, Heathrow also generates revenue from a variety of sources, including concession fees from retail operators, income from car parks, advertising revenue, the rental of airport premises and the provision of facilities and services.

Our strategy

Heathrow's strategy is focused on developing the airport's position from one of the best airports in Europe to one of the best in the world. Our vision is to give passengers the best airport service in the world.

To support and develop Heathrow airport's role as a hub, the Group will continue enabling the success of the major network airlines operating at Heathrow by investing in further capacity, operational flexibility and resilience at sustainable charges for airline customers.

For both local and transfer passengers, Heathrow is working continuously to make every journey better through improved service standards to ensure it remains passengers' preferred airport. Improving the passenger experience is supported by on-going investment in modern airport facilities and operating processes.

Heathrow Airport Limited

Strategic report *continued*

Business overview *continued*

Our priorities
Heathrow aims to deliver the best airport service in the world and has four strategic priorities to help achieve the aim:

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

Beat the plan
Aiming to beat the business plan for the current regulatory period and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments efficiently.

Heathrow expansion
To connect Britain to the world for future generations, we will win support for expansion of Heathrow from our local community, airlines, shareholders, politicians and regulators.

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.

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

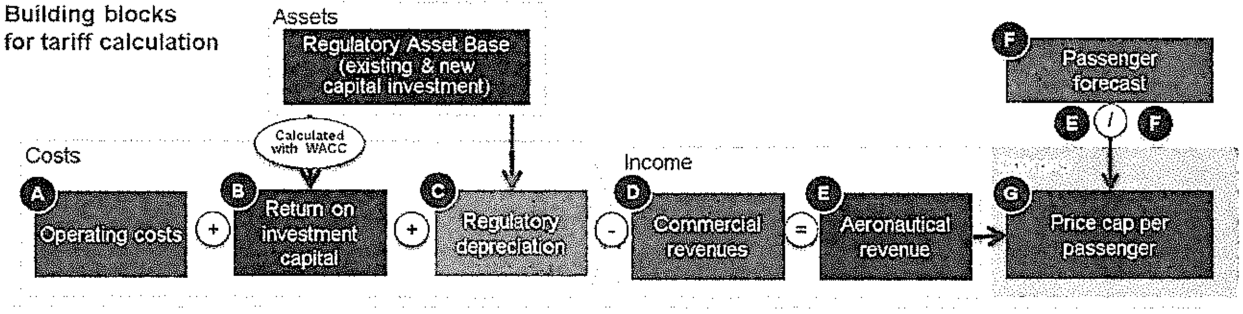
The CAA sets the maximum level of airport charges for Heathrow, generally for five-year regulatory periods. Heathrow's current regulatory period ('Q6') is from 1 April 2014 to 31 December 2018. Heathrow is regulated by means of a per passenger price cap mechanism known as RPI +/- X, which incorporates an allowed return on the Regulatory Asset Base ('RAB').

This is consistent with the economic regulation of other UK regulated industries (such as telecoms and the energy sector). This form of economic regulation is also sometimes referred to as incentive regulation, in that Heathrow has an incentive to outperform the price control by means of attracting more passengers, reducing operating costs or delivering higher commercial revenues than forecast. If the opposite is the case, then Heathrow has to absorb the cost or lower revenue. There is no adjustment for shortfalls in passenger numbers or additional costs (except where Heathrow incurs additional security costs, above an established threshold, when implementing new security directives imposed by the EU or the UK Government).

The Price Cap
The price cap for Heathrow is based on a RAB methodology using a "single till" building block approach. The single till takes into account revenue and costs from both aeronautical and non-aeronautical activities when setting the price caps for a regulatory period.

In setting the price cap, the CAA determines the regulated revenue requirement. This is calculated as the sum of forecast operating expenditure less other revenue plus the required return (using the cost of capital determined by the CAA) on the forecast RAB taking into account forecast capital expenditure, plus regulatory depreciation and plus or minus any profiling adjustment. The profiling adjustment is a mechanism used to smooth changes in charges that might otherwise occur as a result of major investments. The resulting aeronautical revenue requirement effectively amounts to the total income from airport charges.

This methodology for deriving the aeronautical revenue requirement can be represented by the following simplified diagram:



Business overview *continued*

Our regulatory environment *continued*

The Price Cap continued

Since the start of the current regulatory period, the maximum allowable yield (the amount of income generated from regulated airport charges on a per passenger basis) changes from 1 January each year by RPI minus 1.5 per cent, based on RPI from the previous April.

In setting the price cap the CAA takes its own view of the scope for future efficiency savings, the appropriate level of capital expenditure and the rate of growth in demand for airport services.

While the price cap places a limit on the increase in the airport charges yield, Heathrow has the discretion on whether to price to the maximum permitted level. Therefore, Heathrow can choose to price charges below the cap. For example, if there is unused capacity, Heathrow could choose to set prices below the cap in order to stimulate demand.

The price cap takes certain elements into account in the maximum allowable yield. These include an adjustment for additional or reduced security costs as a result of new UK or European security directives; reductions where capital expenditure project milestones are not delivered; a 2017 business rates revaluation factor and a service quality rebate scheme. In addition there is a mechanism known as the "K factor" which is designed to correct for any under recovery (dilution) or over recovery (concentration) in airport charges compared to the annual maximum allowable yield per passenger. Under or over recoveries generally arise due to changes in traffic mix or average loads compared to those forecast at the time prices were prospectively set for the relevant year.

Our income

Heathrow generates two primary types of income: aeronautical income, which is generated from fees charged to airlines for use of the airport's facilities, including passenger fees, landing charges and aircraft parking charges, and non-aeronautical income from a variety of sources, including concession fees from retail operators, direct income from car parks and advertising and income from other services supplied by Heathrow.

Aeronautical income

Aeronautical income reflects the charges levied by Heathrow on the airport's airline customers. These charges (tariffs) cannot exceed the regulated maximum allowable yield per passenger.

The tariff structure through which the aeronautical income is recovered from airlines includes three key elements:

Passenger fees

- Fees per passenger are based on the number of passengers on board an aircraft, and are levied in respect of all departing passengers.

- Two levels of charge based on route area: European (including domestic) and rest of world. Transfer and transit passengers benefit from a discount.

Landing charges

- Landing charges are levied for substantially all aircraft based on three key components; noise, emissions and air navigation services. Charges are higher during the night period and allow for supplemental charges where aircraft do not operate in accordance with airport prescribed noise preferential routes.

Parking charges

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

Non-aeronautical income

Heathrow generates non-aeronautical income from a variety of sources. These include concession fees from retail operators; income from car parks, advertising revenue and VIP products; the rental of airport premises such as aircraft hangars, cargo storage facilities, maintenance facilities and offices and the provision of facilities such as baggage handling and passenger check-ins. Until 31 August 2015, fare revenue from the operation of the Heathrow Express rail service was included in these sources and since this date track access fees in relation to the use of the Company's rolling stock and rail assets revenue is recognised in other income as property and other.

Infrastructure

The Group has invested £11 billion transforming Heathrow's infrastructure over the last decade, with close to £580 million invested in 2015.

Strategic report *continued*

Business overview continued

Infrastructure ***continued***

Runways

Heathrow airport has two parallel runways. These generally operate in 'segregated mode', with arriving aircraft allocated to one runway and departing aircraft to the other. The airport is permitted to schedule up to 480,000 air transport movements per year and in 2015 its runways operated at 98.3% (2014: 98.1%) of this limit.*Terminals*

Each of Heathrow's four operational terminals is either new or recently refurbished. Terminal 2, which opened in June 2014, has the capacity to handle up to 20 million passengers per year and complements the award winning Terminal 5, which celebrated its seventh birthday in 2015, and handled 33 million passengers in 2015. Terminal 1 operations were discontinued in June 2015.

Heathrow Airport's terminal capacity is currently estimated to be 85 million passengers per year.

Baggage systems

In parallel with the work on Heathrow's terminals, significant investment continues in Heathrow's baggage infrastructure. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational, and the Terminal 3 integrated baggage system started operating in March 2015 and is expected to be fully operational in May 2016.

Cargo and mail carriers

Cargo and mail carriers are responsible for handling merchandise and packages at Heathrow airport, including delivery to cargo warehouses, customs procedures and clearance, aircraft loading and unloading, sorting and transport to the final destination. The bulk of cargo and mail at the airport is carried in the cargo holds of passenger flights rather than by dedicated cargo flights.

Certain cargo sheds at the airport are owned by third parties who lease space to cargo service providers. Heathrow also provides cargo sheds and other accommodation and facilities which are leased, or separately billed on a use basis, to cargo-service providers.

Strategic report *continued*

Management review

Review of the year

2015 was a very good year for Heathrow as we made excellent progress towards our aim of giving passengers the best airport service in the world. Passengers ranked the quality of service at Heathrow the highest of Europe's hub airports and Heathrow was named the Best Airport in Western Europe by Skytrax. We delivered record passenger satisfaction and operational reliability improved even with our busiest days ever. Overall in 2015 we welcomed a record 75.0 million passengers and on five separate days over a quarter of a million passengers used Heathrow.

We reported a strong financial performance in 2015 with EBITDA up 3.0% to £1.6 billion, reflecting record traffic, good retail income growth and strong underlying cost control. We lowered our costs in the second half of the year, as the benefits of our efficiency initiatives start to take effect. Over the course of 2015, Heathrow has secured cost efficiencies expected to be worth £170 million over the 2014-2018 regulatory period taking the total secured to over £450 million, out of a target of £600 million. We have further developed our income streams and secured over £150 million in additional commercial revenue out of a target of £270 million.

Passengers had even greater choice in 2015, with new airlines, new destinations and more seats available per flight. We welcomed Vietnam Airlines moving its London services to Ho Chi Minh and Hanoi from Gatwick to benefit from the transfer traffic and cargo at Heathrow. British Airways started a new service to Kuala Lumpur and in March 2016, Garuda Airlines will also move its London flights from Gatwick, bringing Jakarta as a new destination from Heathrow.

Our focus on transforming customer service has covered all aspects of the airport. Passengers are enjoying faster journeys through the airport, with reducing queue times due to more security lanes and parallel loading, improved body scanners and new biometric passport gates in immigration. Our new baggage facility in Terminal 3 helps reduce connection times. We have also been making our operations more efficient and robust. We have introduced technology and procedures to improve our resilience, including enhanced Instrument Landing Systems which assist in low visibility and time-based separation of arriving aircraft to facilitate more landings on windy days. These measures allow a more punctual and complete schedule to be operated, disrupting fewer passenger journeys.

Passengers now have unrivalled choice from our award winning retail offering with expanded World Duty Free outlets and new stores including Chanel, Louis Vuitton and Hermes. We also opened a new business car park and independent lounges in Terminals 4 and 5.

We have made significant progress in 2015 in our commitment to supporting the UK and local economies whilst managing our impacts on communities and environment. We were awarded the Eco-Innovation Award by ACI Europe, commending Heathrow for the progress made in reducing emissions from the airport. We are the only airport in the world to sign the Paris Pledge for Action on climate change. We are leading the way in the airport community by cutting emissions from our own fleet and installing electric vehicle infrastructure. We are also collaborating with airlines, air traffic control and other partners to be quieter, sooner. In 2015, over 99% of flights were operated by the quietest category of aircraft.

Demand to use Heathrow continues to massively outstrip the capacity available with two runways and in July, the Airports Commission gave a unanimous and unambiguous recommendation for Heathrow's proposal to expand with a third runway to the north west of the existing airport. The Commission confirmed that expanding Heathrow would have the greatest economic benefit for the UK and can be delivered while reducing noise for local communities and within EU air quality limits.

In December, the UK Government agreed that there is a need for more runway capacity in the south east of England, validating the findings of the Airports Commission. The Government is now undertaking further analysis on environmental impacts, which is expected to conclude during the summer of 2016. The economic benefit to the UK of expanding Heathrow is up to £211 billion, creating 180,000 jobs nationally, 40,000 new jobs locally and doubling the number of apprenticeships to 10,000. Heathrow has huge support both locally and nationally from business, trade unions, politicians, airlines and the UK construction industry and is ready to deliver. We have full confidence that expansion can be delivered within tough environmental limits and we will work with the Government to deliver the hub capacity that Britain needs.

Management Review *continued*

Passenger traffic

Heathrow's passenger traffic by geographic segment for the year ended 31 December 2015:

Passengers by geographic segment (millions)	**Year ended 31 December 2015**	Year ended 31 December 2014	Change %
UK	**5.1**	5.3	(2.7)
Europe	**31.2**	30.0	3.9
North America	**17.3**	17.0	1.7
Asia Pacific	**10.5**	10.4	0.3
Middle East	**6.4**	6.0	5.8
Africa	**3.3**	3.5	(6.5)
Latin America	**1.2**	1.1	8.3
Total passengers	**75.0**	73.4	2.2

For the year ended 31 December 2015, traffic grew 2.2% to 75.0 million passengers (2014: 73.4 million) on a total of 469,671 passenger flights (2014: 468,359). The average number of seats per passenger aircraft increased 2.1% to 208.7 (2014: 204.5) and even with the substantial increase in available seats, the average load factor remained consistent with last year at 76.5% (2014: 76.6%).

Intercontinental traffic was up 1.4%, with more flights operated and more seats per flight. A380 long haul aircraft now account for 25 departures per day by eight airlines. Traffic on routes serving the Middle East grew 5.8% reflecting more flights and larger aircraft, including additional A380 services from Qatar Airways and Etihad. Increases to North American frequencies led to 1.7% more traffic. Latin American traffic grew 8.3% mainly reflecting Avianca's new route to Colombia. The rise in Asia Pacific traffic of 0.3% included substantial growth on routes serving China and Hong Kong as well as the new services to Vietnam.

European passengers increased by 3.9%, accounting for a significant proportion of traffic growth in 2015. British Airways substantially increased its seat capacity as part of the upgrade to its short haul product and successfully drove additional traffic. Domestic traffic reduced following the withdrawal of Virgin Little Red during 2015, but demand was stimulated during the year with joint initiatives with British Airways including Kids Go Free on the Leeds Bradford route. Domestic traffic is expected to increase with the start of British Airways service to Inverness in March 2016.

Over a quarter of UK exports by value pass through Heathrow today. Cargo volume passing through Heathrow in 2015 was 1.5 million metric tonnes, in line with last year with growth to Asia, particularly Hong Kong and China as well as the new capacity to Vietnam.

Transforming customer service

Heathrow delivered its best ever passenger service in 2015 and 81% of passengers surveyed rated their overall experience as 'Excellent' or 'Very Good' (2014: 78%). For eight successive quarters Heathrow has achieved a service quality score above 4.00 culminating in its highest ever quarterly score of 4.13 in the fourth quarter of 2015. Heathrow is first among major European hub airports for service quality, as measured in the independent Airport Service Quality survey directed by Airports Council International (ACI). The high service standards have resulted in Heathrow being named 'Best Airport in Western Europe' for the first time at the Skytrax World Airport Awards. The award, voted for globally by passengers, came in addition to Terminal 5 being voted the world's 'Best Airport Terminal' for the fourth year in a row and Heathrow being voted 'Best Airport for Shopping' for the sixth consecutive year. Heathrow was also awarded ACI Europe's prestigious Best Airport Award for the second time.

Improvements have been made to ease passengers' journeys through the airport with significant capital investment in security and baggage to facilitate the flow of passengers and ensure seamless transfers between terminals. In immigration, 15 new generation biometric electronic passport gates have been installed in Terminal 5, enabling a more efficient and secure clearance through Border Control. Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 97.4% of the time (2014: 96.1%) compared with a 95% service standard and the service quality regime penalty threshold was not triggered in 2015.

As part of the focus on increasing the resilience of operations, the first two of four new enhanced Instrument Landing Systems (eILS) were implemented at Heathrow. The eILS is based on new navigation technology and provides Heathrow with the capability to increase the number of aircraft that can land in low visibility giving improved safety, resilience and punctuality to airfield operations. Heathrow is also the world's first airport to introduce a system to separate arriving aircraft by time rather than distance. This system allows more landings on windy days and has enabled delivery of a more complete schedule, better punctuality and fewer disrupted passengers.

Heathrow has had its busiest days ever in 2015 and achieved strong levels of service with departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) at 78.1% (2014: 78.2%) and a baggage misconnect rate of 17 per 1,000 passengers (2014:19). Despite challenges to punctuality due to significant restrictions and delays in European airspace throughout the year, overall levels of punctuality steadily improved through the second half of the

Management review continued

Transforming customer service continued

year. The improvements reflected a programme of operational initiatives delivered in close collaboration with NATS, a key strategic partner.

Beating the plan

Heathrow's business plan for the 2014-2018 period improves Heathrow's customer service, strengthens operational resilience, and delivers an ambitious programme of cost efficiencies and revenue growth. Over the course of 2015, Heathrow implemented changes that are expected to be worth a further £170 million over the business plan period, taking the total secured since the start of 2014, to over £450 million, out of the target £600 million.

Heathrow has focused on delivering a sustainable cost base. A voluntary severance scheme and revised new entrant pay levels within the security operations have been introduced. By the end of 2015, 350 colleagues had participated in the voluntary scheme and almost 15% of security officers are now on new terms and conditions. In early 2016, a three year pay agreement under the collective pay arrangements was recommended by unions and is currently subject to ballot.

In October, changes were implemented to the terms of the company's defined benefit pension scheme which reduce ongoing costs and enable the scheme to remain open. The changes, which apply to the scheme's active members, include the introduction of an annual cap on future increases to pensionable pay, a lower rate of benefit accrual and a cap on annual increases to pension payments in retirement. Also in 2015, Heathrow brought forward the closure of Terminal 1, enhanced operational productivity and implemented initiatives to reduce energy consumption. In April 2015, Heathrow entered into a 10 year strategic partnership with NATS to incentivise improved resilience, noise and punctuality performance whilst reducing costs.

In addition, a further £50 million in commercial revenue improvements have been secured, taking the total to £150 million out of the target of £270 million. These commercial initiatives include the benefit of significant investment in the Terminal 5 retail offering, new independent lounges in Terminals 4 and 5, and a new Terminal 5 business car park. In addition, the revised long term contract with World Duty Free is delivering benefit through the regulatory period.

Investing in Heathrow

Heathrow invested nearly £600 million in 2015 on programmes to improve the passenger experience and airport resilience, giving passengers faster and smoother journeys through the airport. From May 2016, the Terminal 3 baggage facility will be fully open and passengers will benefit from improved baggage connection reliability and the ability to check bags in earlier. This is a key step in moving Heathrow towards fully integrated baggage facilities across all terminals. Parallel loading security lanes have been introduced in all terminals and more body scanners have been installed. These enhancements speed up the time to pass through security. An additional airside escalator in Terminal 5 for transfer passengers is being installed which will reduce bottlenecks, allowing better management of flows through security. The Terminal 5 retail offering was enhanced in 2015, giving passengers even greater choice, with an expanded World Duty Free store and new luxury outlets including Chanel, Louis Vuitton and Hermes.

On the airfield, improvements have been made to meet increased airline demand for operating A380 aircraft at Heathrow. Further taxiways were widened and opened to A380 aircraft driving improvement in taxi times and reducing emissions and congestion. A significant programme is in progress to refurbish and enhance the passenger road access tunnels into the central terminal area. Works largely take place during the night and will be complete in late 2016.

Heathrow Express Train Operating Company

Heathrow Express Operating Company Limited ("HEOC") operates the Heathrow Express and Heathrow Connect ("HEX") rail services between Heathrow airport and Paddington station, London under an agreement with Network Rail that expires in June 2023.

Until 31 August 2015, Heathrow Airport Limited was entitled to all receipts and income relating to the HEX service but the day-to-day operation of HEX was undertaken by HEOC on behalf of Heathrow Airport Limited. In return for providing these services, Heathrow Airport Limited paid HEOC a management fee to cover its operating costs plus a margin.

For regulatory reasons, from 1 September 2015 HEOC operates as a Train Operating Company ("TOC") rather than as a service provider, on an arm's length basis similar to any other UK TOC. In order to effect this change, a Business Transfer Agreement ("BTA") was signed between HEOC and Heathrow Airport Limited, effective from 1 September 2015. This transferred the beneficial ownership of the HEX business from Heathrow Airport Limited to HEOC, for an arm's length consideration which was based on a market valuation for the transaction of £38,000,000. The consideration for the transfer of the business was settled by HEOC issuing two ordinary shares of £1 each, at a share premium of £18,999,999 each, to Heathrow Airport Limited. The transfer of business resulted in a gain of £38,000,000 in the accounts of Heathrow Airport Limited, included as "Gain on transfer of business" in the Profit and loss account.

Strategic report *continued*

Management review *continued*

Heathrow Express Train Operating Company continued

Following the effective date of the BTA, HEOC recognises all Ticket revenue as principal, whilst the infrastructure assets and other rail related assets remain with Heathrow Airport Limited. HEOC pays infrastructure charges to access the track and lease payment to use the rolling stock. Heathrow Airport Limited pays HEOC for certain station management services and inter terminal transfers.

Responsible Heathrow

Responsible Heathrow 2020 is our commitment to supporting the UK and local economies whilst managing our impacts on communities and the environment. In the coming months we will set out even more ambitious plans that will make an expanded Heathrow the most sustainable hub airport in the world. In June Heathrow was awarded the Eco-Innovation Award by ACI Europe, which commended Heathrow for the progress made in reducing emissions from the airport. The award recognises Heathrow for having the world's largest single-site car sharing scheme, the UK's first publicly accessible hydrogen refuelling site and an unrivalled public transport system linking passengers to surrounding communities and central London.

Heathrow's Blueprint for Reducing Emissions sets out a ten-point plan for working with partners to reduce emissions from aircraft, vehicles and buildings, as well as being a catalyst to support Heathrow to fulfil its commitment to play its part in meeting EU and UK Government air quality limits in the local area around Heathrow. The area immediately surrounding Heathrow meets air quality limits and in the latest five year survey, Heathrow had reduced total nitrogen oxide (NOx) emissions by 16% and is leading the way for the airport community by cutting emissions from its own fleet vehicles, changing diesel pool cars to electric cars and installing electric vehicle infrastructure in 2015. In September 2015, Heathrow signed an open letter calling for governments to support the aviation industry approach to climate change, including improved efficiency in air traffic management, accelerating research on alternative fuels and new technology. Heathrow has completed a programme to replace over 70,000 lights across the airport with LED lamps and continues to drive down energy demand through energy efficient technology and building management systems. Heathrow is also developing innovative, high performance, carbon free energy supply options for the future.

Heathrow's Blueprint for Traffic Reduction sets out a clear plan to raise the public transport share from 40% of passengers to above 45% by 2019, which means over three million more people using public transport. Over the past 25 years, passenger numbers have risen by almost 80% but airport related road traffic has remained broadly static as the number of passengers using public transport has nearly doubled over that period. A new £1 million local transport fund was created by Heathrow to deliver local authority transport projects to reduce congestion and provide alternatives to local car travel for employees.

Heathrow's Blueprint for Noise Reduction sets the challenge for Heathrow and its partners to be quieter, sooner. In 2015, over 99% of flights were operated by the quietest category of aircraft. Revenue from fines for aircraft breaching noise levels is donated to local communities via the Heathrow Community Fund. Heathrow is on track to become the first large European airport to be free of "Chapter 3" aircraft which are the oldest and noisiest. Heathrow's focus on reducing noise has also led to significantly fewer delayed departures taking off after 11:30pm.

Winning support for expansion

In July 2015, the Airports Commission gave a unanimous and unambiguous recommendation for Heathrow's proposal to expand to the north west of the airport. This followed three years of extensive analysis and consultation. The Commission confirmed that expanding Heathrow would have the greatest economic benefit for the UK and can be delivered while reducing noise for local communities and within EU air quality limits.

Heathrow can connect the whole of the UK with the growing markets of the world. Today, Heathrow has over 80 long haul destinations and, with expansion, can support up to 40 new long haul connections to emerging growth markets. The economic benefit to the UK of expanding Heathrow is up to £211 billion, creating 180,000 jobs nationally, 40,000 new jobs locally and doubling the number of apprenticeships to 10,000.

Support for Heathrow's expansion continues to grow. It has the support of the majority of local communities as well as every major employers group and the unions. It is the only location which all the airlines agree is the right one and want to fly from and is also endorsed by 38 airports across the UK, as it will enhance domestic connectivity. Heathrow expansion has the backing of the majority of MPs across the major parties, as well as politicians in Scotland, Wales and Northern Ireland.

Heathrow plans to fund the £16 billion expansion programme as an integral part of the existing business through its established and scalable financing platform and intends to target its existing investment grade credit ratings. Heathrow is by far the largest wholly-privately funded airport in the world and has successfully attracted global investors to fund over £11 billion of investment since 2004. The major funding requirement is not expected until planning consent is obtained. Heathrow has a track record of delivering major infrastructure projects on time and on budget.

Strategic report *continued*

Management review *continued*

Winning support for expansion

On 10 December 2015, the UK Government agreed that there is a need for more runway capacity in the south east of England, validating the findings of the Airports Commission. The Government is now undertaking further analysis on environmental impacts, which is expected to conclude during the summer of 2016. The Government has committed to the timetable for delivering capacity by 2030 set out by the Airports Commission.

We have full confidence that expansion can be delivered within tough environmental limits and that Heathrow is the only deliverable option. We will work with the Government to deliver the hub capacity that Britain needs.

Strategic report *continued*

Financial review

Introduction
The following financial review, based on the financial statements of the Company, provides commentary on the performance of the Company's operations.

Basis of presentation of financial results
The following financial review, based on the financial results of the Company, provides commentary on the performance of the Company's operations. It has been prepared by the directors in accordance with Financial Reporting Standards ('FRS 102') for the second time.

The statutory financial statements for the year ended 31 December 2014 were prepared under UK GAAP. In addition to those Financial Statements, non-statutory Financial Statements for the year ended 31 December 2014 were prepared by the Directors in accordance with Adopted FRS 102, authorised on the 18 March 2015 and issued to the shareholders of Heathrow Airport Limited. Accordingly, the Directors have concluded that the Company was a first-time adopter of FRS 102 in those non-statutory Financial Statements with a date of transition of 1 January 2012 and that the statutory Financial Statements for the year ended 31 December 2015 are not the Company's first financial statements prepared in accordance with Adopted FRS 102.

From 1 January 2015, the Company changed its treatment of actuarial gains and losses, net gains and losses are now presented within other comprehensive income rather than as an exceptional item in the profit and loss account. The Company now recognises an external asset of liability in relation to the defined benefit pension scheme as stated in the accounting policy.

In order to better reflect the performance of the Company, restructuring costs are now reported within employment costs rather than as an exceptional item in the profit and loss account (2015: £11 million and 2014: £8 million). As this is being applied to 2014, it impacts the previously reported pre-exceptional Operating Costs and EBITDA have been restated accordingly.

The presentation of revenue and operating costs has been changed to more closely reflect the way in which the business is managed. Aeronautical revenue previously included income from VIP services and provision of power to aircraft. These are now allocated to retail and other revenue respectively. Operating cost categories and allocations have also changed. The principal change is to introduce a category for Operational costs which includes costs of baggage operations, inter-terminal operations, IT, air traffic control and rents. These costs, with the exception of rent were previously reported under General Expenses. The Maintenance category now includes cleaning which was also reported under General Expenses. The residual General Expenses are now categorised as Other costs. The presentational change has been applied to prior year amounts. It is noted as re-presented as it does not change the total revenue or operating costs.

Summary performance
In the year ended 31 December 2015 the Company earned a £776 million profit after tax (2014: £36 million).

	Year ended 31 December 2015 £m	Re-presented[1] Year ended 31 December 2014 £m
Excluding exceptional items and certain re-measurements		
Revenue	**2,754**	2,694
Operating costs before depreciation and amortisation	**(1,157)**	(1,141)
EBITDA[2]	**1,597**	1,553
Depreciation and amortisation	**(682)**	(572)
Operating profit	**915**	981
Net finance costs	**(435)**	(500)
Profit before tax	**480**	481
Including exceptional items and certain re-measurements		
Exceptional items	**236**	(194)
Gain on transfer of business to subsidiary	**38**	-
Fair value gain on investment properties	**95**	46
Fair value gain/(loss) on financial instruments	**84**	(246)
Tax charge on profit on ordinary activities	**(157)**	(51)
Profit on ordinary activities after taxation	**776**	**36**

[1] Certain restructuring costs are no longer classified as exceptional as it is considered to better reflect the performance of the Company. This has led to the reclassification of £8 million presented as exceptional in previous years to operating costs.
[2] EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items.

Financial review *continued*

Revenue

In the year ended 31 December 2015, revenue totalled £2,754 million (2014: £2,694 million).

	Year ended 31 December 2015 £m	Re-presented [1] Year ended 31 December 2014 £m	Change %
Aeronautical	**1,699**	1,683	1.0
Retail	**568**	524	8.4
Other	**487**	487	-
Total revenue	**2,754**	2,694	2.2

[1] The presentation of revenue has been changed as described in the Basis of preparation of statutory results.

Aeronautical

In the year ended 31 December 2015, aeronautical revenue increased 1.0% to £1,699 million (2014: £1,683 million) and the average aeronautical revenue per passenger decreased 1.2 % to £22.67 (2014: £22.94).

Traffic growth of 2.2% generated an additional £36 million of aeronautical revenue while tariff changes of RPI -1.5% generated an additional £23 million. However, the non-recurrence of the significant K factor recovery in the second half of 2014 materially reduced the rate of year on year growth.

Retail

In the year ended 31 December 2015, retail revenue increased 8.4% to £568 million (2014: £524 million). Retail revenue per passenger rose 6.2% to £7.58 (2014: £7.14).

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Change %
Duty and tax-free	**128**	128	-
Airside specialist shops	**100**	94	6.4
Bureaux de change	**53**	44	20.5
Catering	**45**	40	12.5
Other retail income	**75**	67	11.9
Car parking	**107**	99	8.1
Other services	**60**	52	15.4
Total retail revenue	**568**	524	8.4

Airside specialist shops performed well throughout 2015, with double-digit growth in luxury store income following the successful opening of the redeveloped luxury retail stores in Terminal 5. Brands including Chanel, Louis Vuitton, Cartier, Rolex, Fortnum & Mason, Bottega Veneta, Dior and Hermes further strengthen Heathrow's unrivalled airport shopping experience. Performance in duty and tax free stores strengthened in the latter part of 2015, having been impacted in part by the store redevelopment in Terminal 5 which, now open, provides an improved offering for customers. Catering outlets have performed well, particularly in Terminal 2 which includes The Perfectionists' Café, created by multi-award winning chef Heston Blumenthal, The Gorgeous Kitchen, WonderTree and YO! Sushi.

Car parking performed strongly in 2015. The growth reflects increased capacity from a new 800-space Terminal 5 business car park which opened in February 2015 improved yield management and a broader offering with eight separate parking products, including the successful valet parking and meet and greet service. Other services revenue grew substantially in 2015, reflecting the success of Heathrow's 'VIP Service' product. The VIP Service offers a private lounge, a dedicated personal shopper and chauffeur service to the aircraft.

Other

In the year ended 31 December 2015, other revenue remained flat at £487 million (2014: £487 million).

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Change %
Other regulated charges	**239**	232	3.0
Rail passenger revenue	**87**	129	(32.6)
Property and other	**161**	126	27.8
Total other revenue	**487**	487	-

Overall other revenue remained stable, growth in utility charges and higher property rental income following the opening of Terminal 2 was offset by a reduction caused by the separation of the HEX business to HEOC as described in the management review on page 8 and 9.

Financial review *continued*

Operating costs

In the year ended 31 December 2015, operating costs excluding depreciation, amortisation and exceptional items increased 1.4% to £1,157 million (2014: £1,141 million).

	Year ended 31 December 2015 £m	Re-presented[1] Year ended 31 December 2014 £m	Change %
Employment	**361**	366	(1.4)
Operational	**232**	250	(7.2)
Maintenance	**175**	156	12.2
Business rates	**123**	112	9.8
Utilities	**90**	92	(2.2)
Other	**176**	165	6.7
Total operating costs	**1,157**	1,141	1.4

[1] Operating cost categories and allocations have changed including prior year as noted in the basis of preparation.

Cost control was strong and on an improving trend throughout 2015, resulting in £7 million lower year on year costs in the final quarter of the year.

Overall costs for 2015 reflect almost £20 million related to the full year operation of Terminal 2 and the start of Terminal 3 baggage facility operations offset by savings from the wind-down of Terminal 1. An additional £12 million was also incurred on expansion planning activities, compared to 2014. Adjusting for this, underlying costs in 2015 were flat versus the previous year.

The improving cost trend was driven by an ongoing focus on employment costs which were 1.4% lower than in 2014.This reflects the benefits of new starter rates, increased productivity and lower overall headcount. In addition, costs related to the defined benefit pension scheme reduced following the implementation of agreed changes to the scheme in October. Operational and maintenance costs reflect savings from improved supplier terms including baggage system operation and maintenance, car parking and air traffic control services. The lower operating costs are partially offset by higher business rates; Heathrow is one of the largest rates payers in the UK.

Operating costs in 2016 are expected to be lower than 2015 as the full benefits flow through from the initiatives implemented last year.

Operating profit

For the year ended 31 December 2015, the Company recorded an operating profit before certain re-measurements of £1,151 million (2014: £787 million).

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Change %
EBITDA[1]	**1,597**	1,553	2.8
Depreciation and amortisation	**(682)**	(572)	19.2
Exceptional items	**236**	(194)	-
Operating profit before certain re-measurements	**1,151**	787	46.3

[1] EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items.

In the year ended 31 December 2015, EBITDA increased 2.8% to £1,597 million (2014: £1,553 million), resulting in an EBITDA margin of 58.0% (2014: 57.6%).

Depreciation and amortisation increased substantially to £682 million (2014: £572 million) mainly reflecting the impact of Terminal 2, the new Terminal 3 baggage facility and accelerated depreciation of Terminal 1.

Exceptional items

In the year ended 31 December 2015, there was a net exceptional credit of £236 million (2014: £194 million charge) to the profit and loss account.

	Year ended 31 December 2015 £m	Represented[1] Year ended 31 December 2014 £m
Pension: change to terms	**236**	-
Pension: actuarial loss		(176)
Terminal 2 operational readiness	-	(18)
Exceptional items before tax	**236**	(194)

[1] Certain restructuring costs are not classified as exceptional as it is considered to better reflect the performance of the Company. This has led to the reclassification of £8 million presented as exceptional in previous years to operating costs.

Financial review *continued*

Exceptional items *continued*

During the period, the Company agreed changes to the HAH Group's defined benefit pension scheme effective from 1 October 2015. The changes include the introduction of an annual cap of 2% on future increases to pensionable pay for active members which results in a one-off reduction of £236 million in the scheme's liabilities, as measured under IAS19, and is classified as an exceptional item in the profit and loss account. There is no immediate cash flow impact as a result of these changes. As noted in the basis of preparation, from 1 January 2015 the Group has changed its pension accounting resulting in the recognition of an external asset or liability and actuarial gains and losses recognised through other comprehensive income, no longer reporting these as an exceptional item in the profit and loss account.

Taxation

All Heathrow group companies operate not only within the UK's tax laws, but also within the spirit of them and do not structure transactions in a way which gives a tax result contrary to the intentions of Parliament. All Heathrow group company profits are subject to UK corporation tax.

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will reduce from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Consequently the Company's significant deferred tax balances, which were previously provided at 20%, were re-measured at the future tax rate at which the Company believes the timing differences will reverse and this has resulted in a net reduction in the deferred tax liability and a corresponding net deferred tax credit of £46 million being taken to the profit and loss account which reduces the effective tax rate. Excluding the impact of the change in tax rate, the effective tax rate in 2015 is higher than the statutory rate. This is because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

As a business, Heathrow has high infrastructure costs and of these a significant proportion now attracts no tax deduction. For those that do attract a tax deduction there is a timing difference between the accounting depreciation of these assets (the asset cost is charged to the profit and loss account over the useful life of the asset on a straight line basis, but is not deductible for tax purposes) and the tax relief available for capital expenditure (capital allowances, being tax reliefs provided in law, spread over a number of years), this generates significant deferred tax liabilities within the Heathrow Group, reflecting future tax payable once capital investment reduces.

Capital expenditure

In the year ended 31 December 2015, additions to fixed assets were £586 million (2014: £729 million). Capital investment is managed at an SP Group level were funding is raised through the Heathrow (SP) financing platform for capital projects which meet the appropriate investment appraisal criteria.

Pension scheme

The HAH Group operates a defined benefit pension scheme, the BAA Pension Scheme, which closed to new members in June 2008. From 1 October 2015, changes were implemented to the terms of the scheme which reduce liabilities and enable the scheme to remain open. The changes, which only apply to the scheme's active members, include introduction of an annual cap of 2% on future increases to pensionable pay, a change to the annual benefit accrual rate from 1/54th to 1/60th of pensionable pay and a cap of 2.5% on annual increases to pension payments in retirement.

At 31 December 2015, the defined benefit pension scheme, as measured under FRS 102 had a surplus of £104 million (2014: £199 million deficit). The movement is principally due to a one-off reduction of £236 million as a result of the introduction of a 2% annual cap on future increases in pensionable pay. The remaining movement mainly reflects the scheme's receipt of a £50 million commutation payment following the sale of the HAH Group's non-Heathrow airports at the end of 2014 and contributions to pay down the scheme deficit.

Recent financing activity

Heathrow continues to focus on optimising the SP Group's long-term cost of debt as well as building further duration, diversification and resilience into its debt financing.

In 2015, Heathrow raised over £1.2 billion in term debt. In February, a €750 million, 15 year public bond with a fixed rate coupon of 1.5% was issued, significantly extending Heathrow's maturity profile in the Euro market. In May, a C$500 million, 10 year public bond with a fixed rate coupon of 3.25% was issued, deepening Heathrow's presence in the Canadian market.

Heathrow has also raised £300 million of long-term private placements, including £150 million of 15-20 year funding. A £115 million, 21 year Class B private placement, raised in 2014 and drawn in September 2015 has since been increased by £65 million and will be drawn during 2016. A NOK1 billion transaction completed in April 2015, with a 12.5 year maturity and a fixed coupon of 2.65%, takes the number of currency markets Heathrow has accessed to six.

Financial review *continued*

Recent financing activity *continued*

In June 2015, a £300 million bond and a US$500 million (£319 million) bond issued by Heathrow Funding Limited in 2012 matured and were repaid. In December 2015, a £78 million loan was repaid at Heathrow Finance. Heathrow completed a bond repurchase programme, buying back Heathrow Finance 2017 and 2019 notes with a nominal value of £32 million and £12 million respectively, at a cash cost of £49 million.

Heathrow has also extended the maturity of its £1.4 billion core revolving credit facilities by one year from November 2019 to November 2020 and cancelled £75 million of its £150 million Class B revolving credit facility.

Since the start of 2016, Heathrow has consolidated its presence in the Swiss franc bond market, raising CHF400 million in an 8 year public bond with a fixed rate coupon of 0.5%. The bond was issued on 17 February and matures in May 2024.

Financial ratios

The SP Group and Heathrow Finance continue to operate comfortably within required financial ratios.

Gearing ratios under the SP Group's financing agreements are calculated using Heathrow's Regulatory Asset Base ('RAB') value. At 31 December 2015 Heathrow's RAB was £14,921 million (2014: £14,860 million).

At 31 December 2015, the SP Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 67.5% and 78.7% respectively (31 December 2014: 68.0% and 78.4% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 84.9% (31 December 2014: 84.5%) compared to a covenant level of 90.0% under its financing agreements. The increase in Heathrow Finance gearing since 31 December 2014 principally reflects the effects of the recent low inflation environment on Heathrow's RAB.

In the year ended 31 December 2015, the SP Group's senior and junior interest cover ratios (the ratio of cash flow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.90x and 2.36x respectively (2014: 2.94x and 2.40x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.11x (2014: 2.20x) compared to a covenant level of 1.00x under its financing agreements.

Outlook

Heathrow forecasts EBITDA in 2016 to increase by approximately 4% to £1,665 million. Revenue is forecast to grow around 1%, mainly reflecting modest traffic growth and further benefits from commercial revenue initiatives. Cost control is forecast to reduce operating costs by approximately 3%.

Strategic report *continued*

Leadership and governance

The discussion in this section is extracted from the financial statements of Heathrow Airport Holdings Limited, since the functions of the Board and Board Committees of Heathrow Airport Holdings Limited are applied equally to this Company.

Board of Directors of Heathrow Airport Holdings Limited
The Board consists of the Chief Executive Officer, the Chief Financial Officer and Non-Executive Directors. Board Meetings are attended also by the Company Secretary. More than half of the board are Non-Executive Directors. The majority of the Non-Executive Directors are shareholder representatives. The remaining minority are independent Non-Executive Directors.

The Board determines the HAH Group's long-term strategy, to ensure that the Company acts ethically and has the necessary resources to meet its objectives, to monitor performance and to ensure the Company meets its responsibilities as a leading airport company.

Board Committees

Audit Committee
The Audit Committee members include a chairman appointed by the Board of Directors and three shareholder Non-Executive Directors, who also attend the Board.

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

- considering the appointment of the external auditor, taking into account relevant ethical guidance and assessing the independence of the external auditor ensuring that key audit personnel are rotated at appropriate intervals (including overseeing the process for selecting the external auditor and making recommendations to the Board);
- recommending the audit fee to the Board for approval and pre-approving any fees in respect of non-audit services provided by the external auditor and ensuring that the provision of non-audit services does not impair the external auditors' independence or objectivity;
- discussing with the external auditor the nature and the scope of the audit and reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- reviewing reports on the effectiveness of systems for internal financial control, financial reporting and risk management;
- monitoring the integrity of the financial statements of the Company and reviewing, and challenging where necessary, the actions and judgements of management, in relation to the interim and annual financial statements and any press release related to those statements; and
- reviewing Internal Audit reports to the Audit Committee on the effectiveness of the Group's systems for internal control, financial reporting and risk management.

Nomination Committee
The Nomination Committee members include the Chairman of the Board, an independent Non-Executive Director and four shareholder Non-Executive Directors who attend the Board.

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

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

Remuneration Committee
The Remuneration Committee members include a chairman appointed by the Board three shareholder Non-Executive Directors who attend the Board and one independent Non-Executive Director.

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

- the remuneration policy of the members of the Executive Committee and Senior Managers;
- the compensation packages of the members of the Executive Committee (other than the Chief Executive Officer) including salary, bonus, pensions and other incentive compensation;
- the contractual terms for the members of the Executive Committee and independent Non-Executive Directors;
- the design and terms of bonus plans including approval of off-cycle bonus payment outside bonus guidelines including sign on, retention and guaranteed bonuses;
- the design and terms of long term incentive plans; and
- succession planning for the members of the Executive Committee.

Strategic report *continued*

Leadership and governance *continued*
Board committees *continued*
Finance Committee
The Finance Committee members include a chairman appointed by the largest shareholder of FGP Topco Limited, the Chief Executive Officer, the Chief Financial Officer and a Non-Executive Director representing each shareholder entitled to appoint a director to the Board.

The Finance Committee is a sub-committee of the Board and also acts as a forum for obtaining consents required from the shareholders of FGP Topco Limited.

The Finance Committee is responsible for approving various matters relating to the Group's debt financing arrangements prior to their implementation including approval for:

- any prospectus or other listing document required in relation to the issuance of any capital markets instruments or any formal information memorandum in relation to borrowing by any member of the HAH Group;
- the borrowing of any money or the assumption of any indebtedness by any member of the HAH Group (including by way of the issue of securities) in excess of certain financial thresholds;
- the refinancing of any existing indebtedness in respect of any member of the HAH Group in excess of certain financial thresholds;
- the making of any repayments of principal in addition to scheduled principal payments on any debt that may be owing by any member of the HAH Group;
- other than as required by the financing arrangements of any member of the HAH Group, the making of any material loan or advance or giving of any guarantee, indemnity or provision of any credit, in each case in excess of certain financial thresholds;

Executive Committee
The Executive Committee consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Information Officer, the General Counsel and Group Company Secretary, the Corporate Affairs Director, the Procurement Director, the HR Director, and the Strategy Director.

The Executive Committee is the management committee of the Chief Executive.

The Executive Committee is responsible for, among other things, developing, reviewing and refreshing medium and long term Group business strategies, policies and development plans for Board approval and agreeing short-term tactics and action plans to ensure their delivery.

Responsible Heathrow and Operational Risk Committee
The Responsible Heathrow and Operational Risk Committee (formerly the Sustainability and Operational Risk Committee) is chaired by an independent Non-Executive Director, and its members include the Chief Executive Officer and three shareholder Non-Executive Directors who attend the Board.

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

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

Internal controls and risk management

Internal controls and risk management are key elements of the Company's corporate operations. Risk is centrally managed within the HAH Group as part of the corporate services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team which implements and manages risk closely, setting the guidelines for the Company Group. The Executive Committee, Board, Audit Committee ('AC') and the Responsible Heathrow and Operational Risk Committee ('RHORC') referred to below relate to the Executive Committee, Board, AC and RHORC of Heathrow Airport Holdings Limited. Of the four members of the AC all, including the Chair, are non-executive directors. Together they have appropriate competence in accounting and auditing.

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 Company 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 internal control and risk management systems in relation to the financial reporting process include:

- a group-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- AC 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;
- independent review of controls by the Internal Audit function, reporting to the AC; and
- a confidential whistleblowing process.

Risk management

The principal risks identified by the Executive Committee are:

Safety and security

The Company has a statutory and moral responsibility to ensure aviation security and safeguard the welfare and safety of staff, business partners and the public who may be affected by its activities. The Group recognises that a failure to exercise this responsibility effectively also risks operational disruption, inconvenience to passengers and long-term damage to its reputation.

The Company's Safety Management System includes risk assessment processes for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the Company's business. The Company also operates robust asset management processes to ensure property and equipment remains safe. Governance, led by the airport's senior management teams, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

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

Strategy, regulation and competition

Heathrow airport is operating its' runways at close to full capacity and failure to secure necessary planning permissions could lead to increased congestion, passenger delay and lack of opportunity for the UK.

Monitoring developments in the global aviation market and the levels of passenger satisfaction with different airports around the world provides input to the on-going relevance of the Company's strategy but this has to remain in the context of the UK government's policy on airport capacity which has a significant influence on the Company's ability to secure necessary planning permissions and develop capacity. The Company undertakes extensive consultation with community

Internal controls and risk management ***continued***
Risk management ***continued***
Strategy, regulation and competition continued
groups and authorities at a local level and is an active participants in government consultations and other advisory groups.

Operations at Heathrow airport are currently subject to economic regulatory review by the CAA normally every five years. The risk of an adverse outcome from these reviews is mitigated as far as possible by a dedicated project team which ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters.

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

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of the Group breaching these regulations.

Operational resilience
There are a number of circumstances that can pose short-term risks to the normal operations at the airport such as shocks to the macroeconomic environment, terrorism, wars, airline bankruptcies, human health scares, weather conditions and natural disasters whose cause may be remote from Heathrow's location. These conditions can have a particularly significant impact where, due to operating close to full capacity, there is negligible spare capacity to utilise in recovering from some of the above conditions. Where possible the Company seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption and passenger inconvenience working as necessary with those parties who have direct contractual responsibility.

Through a series of programmes the Company seeks to keep a competent, flexible and motivated workforce that can respond to a changing business and operating environment. By driving engagement in its people the Company will achieve its goals and give excellent passenger service, avoid safety and security incidents, protect resilience and deliver successful change.

Corporate social responsibility
The Company understands the importance to its business of the communities in which it operates, and through consultation and engagement seeks to ensure that their concerns are taken into account in the operation and planning of Heathrow.

The Company undertakes procurement responsibly and encourages trade and employment opportunities with the local communities. Progressive influencing of third parties, stakeholders engagement and community relations programmes are also established.

Environmental risk has the potential to impact negatively upon the Company's reputation and jeopardise its licence to operate and to grow. Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. The Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Operational risks to the delivery of Responsible Heathrow goals are reviewed and monitored by the RHORC.

Management of change
The risk of unanticipated long-term changes in passenger demand for air travel could lead to a shortfall in revenue and misaligned operational capacity within the Company. Since it is not possible to identify the timing or period of such an effect, the Company carries out evaluations through a series of scenario planning exercises

Heathrow recognises that failure to control key development costs and delivery could damage its financial standing and reputation. The Company mitigates this risk through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction. The process is continually improved incorporating lessons learnt and "best practice" distilled from knowledge sharing with other client programmes, expertise within its supply chain and guidance from professional bodies.

Internal controls and risk management ***continued***
Risk management ***continued***

Supply chain
Understanding the possible impact on airport operations and passenger experience of its' own and others' supply chains, Heathrow aims to manage its' contracts effectively and share with airport partners the information it may hold about their service providers. This is underpinned by robust and responsible procurement practices which consider the resilience and sustainability of suppliers before contracts are commenced with them, as well as frequent monitoring of their operational performance once they commence business with the airport.

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

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the HAH Group's business operations and funding. To achieve this, the HAH 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 HAH Group are:

(a) Interest rates
The HAH Group maintains a mix of fixed and floating rate debt. As at 31 December 2015, fixed rate debt after hedging with derivatives represented 96% of the Group's total external nominal debt.

(b) Inflation
The HAH 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 HAH Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The HAH 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 HAH Group has established both investment grade (at the Heathrow (SP) level) and sub-investment grade (at the Heathrow Finance level) financing platforms for Heathrow. The Heathrow (SP) platform supports term loans, various revolving loan facilities including revolving credit facilities, working capital facilities and liquidity facilities, and Sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the AC, 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 HAH Group is not exposed to excessive refinancing risk in any one year.

Heathrow Finance has positive cash flows after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to January 2018. As at 31 December 2015, cash and cash equivalents and term deposits were £727 million, undrawn headroom under revolving credit facilities was £1,475 million, committed term debt financing to be drawn after 31 December 2015 was £240 million and undrawn headroom under liquidity facilities was £750 million.

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

The HAH Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F1. The HAH Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+ (S&P)/A- (Fitch).

On behalf of the Board

Michael Uzielli
Director
23 March 2016

Directors' report

The Directors present their annual report and the audited financial statements for Heathrow Airport Limited (the 'Company') for the year ended 31 December 2015.

Principal activities
The Company owns Heathrow airport and operated Heathrow Express ('HEX') for the period 1 January 2015 to 31 August 2015, the express rail service between Heathrow and central London. The Company was entitled to all receipts and income relating to HEX but the day-to-day operation of HEX was undertaken on behalf of the Company by Heathrow Express Operating Company Limited ("HEOC"), a subsidiary of the Company. Since 1 September 2015 the beneficial ownership of the HEX business was transferred to Heathrow Express Operating Company Limited as a Train Operating Company on an arm's length basis. The Company is entitled to revenue related to track access fees and income for to other rail related assets.

A review of the progress of the Company's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are reported in the strategic report on pages 2 to 21.

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

Results and dividends
The profit after taxation for the financial year amounted to £776 million (2014: £36 million).

Dividends of £361 million were paid during the year (2014: £419 million). These dividend payments were utilised primarily to fund dividends to the Company's ultimate shareholders and to service external debt at fellow HAH Group companies.

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

Ian Ballentine	
Stuart Birrell	Appointed 1 July 2015
Normand Boivin	
Neil Clark	Resigned 31 March 2015
Emma Gilthorpe	
Clare Harbord	
John Holland-Kaye	
Carol Hui	
José Leo	Resigned 25 March 2015
Paula Stannett	
Michael Uzielli	Appointed 9 June 2015

Donations
The Company's charitable donations for the year amounted to £2 million (2014: £2 million). The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows.

Hillingdon Community Trust (charity number: 1098235)	£1,000,000	Heathrow Airport Limited made a 15 year commitment ending 2017 to make an annual grant of £1 million to the Hillingdon Community Trust. The deed of gift to the Trust carries a requirement that grants must benefit the community in the southern part of the Borough of Hillingdon including Hayes (the wards of Botwell, Townfield and Pinkwell, West Drayton, Yiewsley and the Heathrow Villages).
LHR Airport Communities Trust (charity number: 1058617)	£770,000	Heathrow Airport Limited made donation to the charity LHR Airport Communities Trust, an independently run grant-making charity which operates the Heathrow Community Fund. The fund also received income from the proceeds of noise fines collected by Heathrow. Through the fund grant programme the charity supports significant and positive change for communities near the airport, with a priority on funding projects linked to education, the environment and economic regeneration. The charity also supports airport staff volunteering and fundraising to improve their community for a cause they believe in.

Directors' report *continued*

Donations *continued*

Green Corridor (charity number: 1092093)	£10,000	Green Corridor offers young people the opportunity to expand their skills, experience and qualifications through land-based activities with the primary aim of reducing social exclusion in some of west London's poorest areas.
Dreamflight (charity number: 1117303)	£5,000	Provides children with serious illness or disability with their holiday of a lifetime.

Heathrow also supported fundraising for the benefit of Oxfam during the year as it approaches the end of a third year of a charity partnership with Oxfam. Heathrow celebrated passing the fantastic milestone of helping to raise £500,000 for Oxfam's work. In 2015 alone, a total of £236,400 was raised through foreign exchange coin collections around the terminals at Heathrow airport, with an additional £65,232 raised through various employee fundraising schemes and events.

Internal Controls and Risk management

The Company actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Company's internal controls and risk management policies can be found on pages 18 to 20 in the internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies, including hedging policies, along with the Company's exposure to risk, can be found on pages 18 to 20 in the Internal controls and risk management section of the Strategic report.

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.

Auditor

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

Statement of disclosure of information to the Auditor

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

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

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

On behalf of the Board

Michael Uzielli
Director

23 March 2016

Company registration number: 01991017

Heathrow Airport Limited

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice and within the guidelines of Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'(FRS 102'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

On behalf of the Board

Michael Uzielli
Director

23 March 2016

Independent auditor's report to the directors of Heathrow Airport Limited

We have audited the financial statements of Heathrow Airport Limited for the year ended 31 December 2015 which comprise Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24. 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 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

23 March 2016

Profit and loss account for the year ended 31 December 2015

		Year ended 31 December 2015			Re-presented[1] Year ended 31 December 2014		
	Note	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items [2, 3] £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items[2] £m	Total £m
Turnover	1	2,754	-	2,754	2,694	-	2,694
Operating costs[1]	2	(1,839)	236	(1,603)	(1,713)	(194)	(1,907)
Other operating items							
Fair value gain on investment properties	8	-	95	95	-	46	46
Operating profit		915	331	1,246	981	(148)	833
Gain on transfer of business to subsidiary	9	-	38	38	-	-	-
Net interest payable and similar charges							
Interest receivable and similar income	4a	140	-	140	141	-	141
Interest payable and similar charges	4a	(575)	-	(575)	(641)	-	(641)
Fair value gain/(loss) on financial instruments	4b	-	84	84	-	(246)	(246)
		(435)	84	(351)	(500)	(246)	(746)
Profit on ordinary activities before taxation		480	453	933	481	(394)	87
Tax (charge)/credit before change in tax rate		(125)	(78)	(203)	(117)	66	(51)
Change in tax rate		-	46	46	-	-	-
Taxation	5	(125)	(32)	(157)	(117)	66	(51)
Profit on ordinary activities after taxation		355	421	776	364	(328)	36

[1] Certain restructuring costs are no longer classified as exceptional as it is considered to better reflect the performance of the Company. This has led to the reclassification of £8 million presented as exceptional in the previous year to operating costs.

[2] Certain re-measurements and exceptional items consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses on the transfer of business, gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship, the effects of the changes in tax rate, exceptional items; and the associated tax impact of these and similar cumulative prior year items. The presentation of exceptional items and changes in tax rate has been changed in the current year as disclosed in the accounting policies.

[3] Gain recognised on the transfer of the beneficial ownership of Heathrow Express ("HEX") and Connect businesses from Heathrow Airport Limited to Heathrow Express Operating Company Limited ("HEOC") on an arm's length consideration based on market valuation as of the 1 September 2015 for the transaction value of £38 million. HEOC received a right to operate the HEX and Connect business but the ownership of related fixed assets remained with HAL.

Heathrow Airport Limited

Statement of comprehensive income for the year ended 31 December 2015

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit for the year		**776**	36
Other comprehensive income:			
Tax relating to retirement benefits		**(9)**	(4)
Actuarial loss on pensions	*18*	**(4)**	-
Tax relating to indexation of operating land		**-**	1
Change in tax rate	*18*	**8**	-
Other comprehensive loss for the year net of tax		**(5)**	(3)
Total comprehensive income for the year		**771**	33

Items in the statement above are disclosed net of tax.

Heathrow Airport Limited

Statement of financial position as at 31 December 2015

	Note	**31 December 2015** **£m**	31 December 2014 £m
Fixed assets			
Intangible assets	*6*	**133**	114
Tangible fixed assets	*7*	**11,248**	11,349
Investment properties	*8*	**2,156**	2,054
Investment in subsidiary	*9*	**42**	4
Total fixed assets		**13,579**	13,521
Current assets			
Stocks	*10*	**11**	10
Debtors – due within one year	*11*	**841**	506
Debtors – due after one year	*11*	**2,050**	1,786
Cash and cash equivalents	*12*	**168**	265
Total current assets		**3,070**	2,567
Current liabilities			
Creditors: amounts falling due within one year	*13*	**(1,471)**	(1,320)
Net current assets		**1,599**	1,247
Total assets less current liabilities		**15,178**	14,768
Creditors: amounts falling due after more than one year	*14*	**(12,242)**	(12,061)
Provisions for liabilities and charges	*18*	**(452)**	(633)
Net assets		**2,484**	2,074
Capital and reserves			
Share capital	*19*	**473**	473
Revaluation reserve	*19*	**768**	665
Profit and loss reserve	*19*	**1,243**	936
Total shareholder's funds		**2,484**	2,074

The financial statements of Heathrow Airport Limited (Company registration number: 01991017) were approved by the Board of Directors and authorised for issue on 23 March 2016. They were signed on its behalf by:

Michael Uzielli
Director

John Holland-Kaye
Director

Heathrow Airport Limited

Statement of changes in equity for the year ended 31 December 2015

	Share capital £m	Revaluation reserves £m	Profit and loss reserve £m	Total £m
1 January 2014	473	639	1,313	2,425
Profit for the year			36	36
Other comprehensive income				
Tax relating to indexation of operating land		1	-	1
Tax relating to retirement benefits		-	(4)	(4)
Total comprehensive income		1	32	33
Transfer to revaluation reserve				
Investment property fair value movements		46	(46)	-
Deferred tax on investment properties		(21)	21	-
Total transfer to revaluation reserve		25	(25)	-
Transactions with owners				
Dividends paid (Note 19)		-	(419)	(419)
Capital contribution[1]		-	35	35
Total transactions with owners		-	(384)	(384)
1 January 2015	**473**	**665**	**936**	**2,074**
Profit for the year			**776**	**776**
Other comprehensive income				
Tax relating to retirement benefits		**-**	**(9)**	**(9)**
Actuarial loss on pension		**-**	**(4)**	**(4)**
Change in tax rate		**8**	**-**	**8**
Total comprehensive income		**8**	**763**	**771**
Transfer to revaluation reserve				
Investment property fair value movements[2]		**95**	**(95)**	**-**
Deferred tax on investment properties[2]		**(18)**	**18**	**-**
Deferred tax change in rate (investment properties and operational land)[2]		**16**	**(16)**	**-**
Transfer between reserves		**2**	**(2)**	**-**
Total transfer to revaluation reserve		**95**	**(95)**	**-**
Transactions with owners				
Dividends paid (Note 19)		**-**	**(361)**	**(361)**
Total transactions with owners		**-**	**(361)**	**(361)**
31 December 2015	**473**	**768**	**1,243**	**2,484**

1 On 21 February 2014 an intercompany loan with Heathrow (AH) Limited was waived leading to a capital contribution in the Company.

2 Movements in the valuation of investment properties recorded to the profit and loss account are transferred to the revaluation reserve with the associated deferred tax liability. Details of the amount of deferred tax associated to investment properties are in Note 18.

Accounting policies for the year ended 31 December 2015

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

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

The Company
The Company is a limited liability company incorporated in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Basis of accounting
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments and investment properties in accordance with Companies Act 2006 and applicable accounting standards.

Transition to FRS 102
The financial statements for the year ended 31 December 2014 were prepared under UK GAAP. In addition to those Financial Statements, non-statutory Financial Statements for the year ended 31 December 2014 were prepared by the Directors in accordance with FRS 102, authorised on the 18 March 2015 and issued to the shareholders of Heathrow Airport Limited. Accordingly, the Directors have concluded that the Company was a first-time adopter of FRS 102 in those non-statutory Financial Statements with a date of transition of 1 January 2012 and that the statutory Financial Statements for the year ended 31 December 2015 are not the Company's first financial statements prepared in accordance with FRS 102.

The effect of transition to FRS 102 including reconciliation, was disclosed in the December 2014 non-statutory Financial Statements. For information purposes, a description of the significant adjustments that were made on transition and effect of the Financial Statements is given in note 23. In applying Adopted FRS 102 for the first time, the Company has applied the exemption to not prepare consolidated financial statements and taken advantage of the disclosure exemption set out in FRS 102 (1.12 (b)) relating to a statement of cash flows.

The Company has adopted the following standards and amendments effective for the Company from its transition date to FRS102, 1 January 2014 that are relevant to these Financial Statements.

- IAS 39 'Financial Instruments: Recognition and Measurement', as endorsed by the European Union ('EU'). As a result, the accounting requirements of IAS 39 have been applied to all financial instruments instead of those of FRS 102.
- IFRS 8 'Operating Segments' as endorsed by the EU, as permitted by FRS 102 Section 1 paragraph 5 ('FRS 102.1.5').

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

Primary financial statements format
The primary financial statements are presented in accordance with FRS 102.

A columnar approach has been adopted in the profit and loss account and the impact of certain items is shown in a separate column. The items in this column have been amended during the year to expand the definition to include exceptional items and the effect on taxation of changes in tax rates. Management believe that by including material and non-recurring items in a separate column results in a more informative presentation of the performance of the underlying business. Management also believe that the impacts from changes in tax rates are better presented in the separate column, so that the tax charge remaining in the first column (before certain re-measurements and exceptional items) results directly from the profit before tax shown in that column.

The column ('certain re-measurements and exceptional items') now contains the following items:
i. fair value gains and losses on investment property revaluations and disposals;
ii. gains and losses on a transfer of business;
iii. derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship;
iv. exceptional items;
v. the associated tax impacts of the items in (i), (ii) and (iii) above and similar cumulative prior year items; and
vi. the impact on deferred tax balances of known future changes in tax rates.

Accounting policies *continued*

Primary financial statements format *continued*

The 2014 amounts have been presented to present the financial information for both years in a consistent manner.

Going concern

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

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

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

As a result of the review, and having made appropriate enquiries of management, the directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the twelve months following the date when the financial statements were authorised for issue.

Segment reporting

Information reported to the Board for the purposes of resource allocation and assessment of segmental performance relates to the operations of Heathrow.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and consists primarily of:

Aeronautical

- Passenger charges based on the number of departing passengers on departure.
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on time parked and whether aircraft are wide or narrow bodied as provided.
- Other charges levied for passenger and baggage operations when these services are rendered.

Retail

- Concession fees from retail and commercial concessionaires at the airport are based upon reported revenue by concessionaires, taking into account contracted minimum guarantees where appropriate, and are recognised in the period to which they relate.
- Car parking income is recognised at the time of exiting the car park in accordance with operator management fee arrangements.

Other Regulated Charges ('ORCs')

- Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided.
- Charges related to passengers with restricted mobility and various other services recognised at the time of delivery.
- Other invoiced sales, recognised on the performance of the service.

Other

- Property letting rentals recognised on a straight-line basis over the term of the rental period.
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale.
- Rail ticket sales, recognised at the point of sale.

Contributions

On occasion, the Group may receive grants to improve airport infrastructure considered to be in the best interest of the public. These are recorded as reductions in the cost of the property, plant and equipment to which they relate.

Exceptional items

The Group separately presents certain items on the face of the profit and loss account as exceptional. Exceptional items are material items of income or expense that, because of their size or incidence, merit separate presentation to allow an understanding of the Group's financial performance.

Exceptional items continued
Such events may include gains or losses on the disposal of businesses or assets that do not qualify as discontinued operations, major reorganisation of businesses, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project.

From 1 January 2015, the Group has changed its treatment of actuarial gains and losses on the Group's defined benefit pension scheme. The net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the profit and loss account. Previously, movements in the Group's share of pension obligations were recorded as exceptional items. Refer to the Shared Services Agreement accounting policy.

Additional details of exceptional items are provided as and when required as set out in Note 3.

Interest receivable
Interest receivable is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and available for use. Such borrowing costs are capitalised whilst projects are in progress.

Where assets in the course of construction are financed by specific borrowing facilities the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise, otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest capitalised is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

All other borrowing costs, including costs incurred in respect of the maintenance of the Group's credit setting, are recognised in the profit and loss account in the year in which they are incurred.

Internally-generated intangible assets
Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

- an intangible asset is created that can be separately identified; and
- it is probable that the intangible asset created will generate future economic benefits; and
- the development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Purchased intangible assets (software costs)
Computer software costs principally relate to operating and financial software. These assets are amortised over a period of between three and seven years. Amortisation for the year is charged through operating costs.

Tangible fixed assets
Operational assets
Terminal complexes, airfield assets, plant and equipment, rail assets and other land and buildings are stated at cost less accumulated depreciation and impairment losses.

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company. The Company reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

Depreciation

Depreciation is provided on operational assets, other than land and assets in the course of construction, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as set out below:

Terminal complexes	*Useful* lives
Terminal building, pier and satellite structures	20 - 60 years
Terminal fixtures and fittings	5 - 20 years
Airport plant and equipment:	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment including runway lighting and building plant	5 - 20 years
Tunnels, bridges and subways	50 - 100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10 - 15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Rolling stock	8 - 40 years
Tunnels	100 years
Track metalwork	5 - 10 years
Track bases	50 years
Signals and electrification work	40 years
Other land and buildings	
Short leasehold properties	period of lease
Leasehold improvements	lower of useful economic life or period of lease
Plant equipment and other assets	
Motor vehicles	4 - 8 years
Office equipment	5 - 10 years
Computer equipment	4 - 5 years

In certain circumstances, the asset life may fall outside of the boundaries disclosed above.

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Impairment of assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of a cash-generating unit exceeds its recoverable amount, the cash-generating unit is considered impaired and is written down to its recoverable amount.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the reporting date, as determined by the directors and by external valuers. Gains or losses arising from changes in the fair value of investment property are recognised in the profit and loss account in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the profit and loss account on the unconditional completion of the sale.

The revaluation reserve includes historic gains and losses on investment properties. Future gains and losses will be recognised in the profit and loss account and transferred to the revaluation reserve. The gains and losses will remain in the revaluation reserve as a matter of course and will only be transferred to the profit and loss reserve as part of a capital reconstruction or on disposal of the investment property.

Accounting policies for the year ended 31 December 2015 *continued*

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Company as a lessee
Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Company as a lessor
Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Investment in subsidiary
Investments are held as fixed assets and are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Stocks
Raw materials and consumables consist of engineering spares and other consumable stores. These are valued at the lower of cost and estimated selling price less costs to complete and sell, and include all costs to bring stocks to their present location and condition.

Issue costs
Prepaid fees in relation to the future issuance of debt are held on the balance sheet on the basis that such issuance is considered probable. When issued, the debt is recognised initially at fair value, net of fees and is subsequently stated at amortised cost. Any difference between the amount initially recognised (net of fees) and the redemption value is recognised in the profit and loss account over the period of the debt using the effective interest method. If the debt issues do not occur, or are deemed not to be probable, prepaid fees are recognised in the profit and loss account.

Deferred income
Amounts received prior to the delivery of goods and services are recorded as deferred income and released to the profit and loss account as they are provided.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Restructurings
A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the on-going activities of the entity.

Financial instruments

Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

Investments

For investments that are traded in an active market, fair value is determined by reference to quoted market bid prices at the reporting date. For investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows, or by reference to the current market value of similar investments.

Purchases and sales of investments are recognised on trade-date being the date on which the Group commits to purchase or sell the asset.

Investments are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the sale and the sale is expected to be completed within one year of the date of classification. Assets classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts. Short-term deposits with an original maturity of over three months are shown within debtors due within one year.

Financial liabilities and reserves

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all of other liabilities.

Creditors

Trade and other creditors are non-interest bearing and are recognised initially at their fair value and subsequently at amortised cost.

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 account over the period of the borrowings using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the profit and loss account.

Borrowings from group undertakings include the balance of the Borrower Loan Agreements ('BLAs') payable by the Company to Heathrow Funding Limited. Advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by Heathrow Funding Limited, taking into consideration certain of the related hedging instruments. The advances are carried at amortised cost with the interest expense recognised using the effective interest method. The nominal amount of the index-linked borrowings is accreted for the RPI component recognised within interest payable in the profit and loss account.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group') are transferred at fair value prevailing on that date.

The Company does not apply hedge accounting in relation to any of its derivative financial instruments. Changes in the fair value of these derivative instruments are recognised immediately in the profit and loss account, within fair value gains/(losses) on financial instruments. The interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account, respectively. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified on the balance sheet based on their maturity.

Financial instruments *continued*

Accounting for changes in credit risk

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Group's derivatives is updated quarterly based on current market data.

Embedded derivatives

As required by IAS 39 embedded derivatives are assessed on the initial recognition of the underlying host contract. Where the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract, no bifurcation of the embedded derivative from the host contract is undertaken.

Shared Services Agreement ('SSA')

All employees of the Company are legally employed by LHR Airports Limited. LHR Airports Limited also legally sponsors the defined benefit pension schemes while Heathrow Airport Limited incurs all employment related costs.

Following the disposal of Aberdeen, Glasgow and Southampton airports in December 2014 the directors reassessed the Company's relationship with LHR Airports Limited, given that the sole operating airport is now Heathrow and noted the following:

- The SSA states that the operating entities, being only Heathrow Airport Limited, are responsible for pension costs on LHR Airports Limited's retirement benefit schemes;
- The Company is responsible for funding the retirement benefit schemes, paying employer contributions directly to the pension scheme; and
- Although employees remain legally employed by LHR Airports Limited, the Company makes all employment decisions. LHR Airports Limited is no longer considered to be providing a service, in relation to employees to the Company but is acting as an agent.

Consequently, from 1 January 2015, all employment related costs and the disclosures pertaining to the defined benefit pension scheme are presented in the financial statements of the Company as though it were principal.

Employment costs

The Company incurs the cost of people which are contractually employed by LHR Airports Limited but provide services to the operation of the airport. Employment costs include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other associated expenses properly incurred by the employees of LHR Airports Limited in providing the services.

Centralised services

LHR Airports Limited is considered to be continuing acting as principal in relation to the services of the HAHL Board and Ferrovial advisory services. These costs are recharged to Heathrow Airport Limited (the only remaining airport party to the SSA) with a mark-up of 7.5%. This judgement has been reached following consideration of whether the Company is exposed to the majority of the risks and rewards associated with the centralised services provided by LHR Airports Limited.

Pension costs

The directors have determined, after taking into account the Shared Service Agreement, employment relationships and the funding risk associated with the schemes, that Heathrow Airport Limited now acts as principal in relation to these schemes. As a result, the Company now recognises an external asset or liability, in relation to the schemes, on its statement of financial position, as non-current under the caption of Retirement benefit surplus/obligations within Debtors and Creditors respectively instead of an intercompany liability. Additionally, it is now considered appropriate for the Company to record actuarial gains and losses on the external scheme within other comprehensive income rather than the profit and loss account.

There is no impact on cash or net assets as a result of this change as it is not considered to be a change in accounting policy as the change has arisen as a result of the disposal of the NDH1 group. Consequently there will be no restatement of financial information in the prior period to align with our new method of accounting.

Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, 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 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.

Accounting policies for the year ended 31 December 2015 *continued*

Current and deferred taxation *continued*

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 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.

Preference shares

Preference shares are classified as liabilities when in substance the shares and the related dividends have terms similar to liabilities and not share capital. Features that indicate that presentation as a liability is appropriate include dividends that are payable for a fixed or determinable amount at a fixed or determinable future date and where redemption is at a predetermined amount and date or at the option of the preference shareholder and not at the discretion of the Company. Where presentation as a liability is considered appropriate, the associated dividend expense is shown within interest in the profit and loss account.

Dividend distribution

A dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the shareholder's right to receive payment of the dividend is established.

Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the profit and loss account.

Related party disclosures

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are wholly owned subsidiaries of the FGP Topco Limited group. Under FRS 102 it is also exempt from providing certain other disclosures regarding key management personnel.

Cash flow statement

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2015. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2015 (intermediate parent entity and the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of accounting standard FRS 102 (1.12 (b) and (e)).

Significant accounting judgements and estimates for the year ended 31 December 2015

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

Critical judgements in applying the Company's accounting policies

Investment properties
Investment properties are fair valued by CBRE Limited, Chartered Surveyors. The valuations are prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations are carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) is capitalised using yields derived from market evidence. Approximately 79% (2014: 80%) of the investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility than the overall market. Independent valuations are obtained for all investment properties.

Operational land
The deemed cost of certain operational land on transition to FRS 102 has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Company occupied assets and included the terminals and airfields. It does not include land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence. This resulted in a one-off valuation uplift in the value of tangible fixed assets of £360 million. The increase in the related deferred tax liability at 1 January 2012 was £43 million and £31 million at 31 December 2014. For deferred tax purposes operational land has been treated as one asset. The deferred tax liability has been calculated as the valuation less the indexed base cost.

Pensions
Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at period end and charges to the profit and loss account. The factors have been determined in consultation with the Company's actuary taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Company's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the exceptional items-pension line in the profit and loss account.

Agent versus Principal
The presentation of certain costs including employment costs and pension costs which are a contractual obligation of LHR Airports Limited are presented as Operating costs of Heathrow Airport Limited in the 2015 financial statements following assessment of which entity is principal in relation to these transactions. This judgement is described in the accounting policies and is based on the balance of risks and rewards between group companies.

Taxation
Provisions for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures. Amounts provided are based on management's interpretation of U.K. specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions will probably be sustained. In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current tax liabilities.

Capitalisation
Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Examples where judgement has been exercised in the year include capitalised interest, where judgement is exercised in relation to the applicable interest rate and the assessment of assets in the course of construction, projects on hold, and operational activities where judgement is exercised to determine costs that are directly attributable to the assets under construction.

Significant accounting judgements and estimates for the year ended 31 December 2015 *continued*

Critical judgements in applying the Company's accounting policies *continued*
Fair value of Heathrow Express
On 1 September 2015, the Company transferred the benefit of the Heathrow Express business to Heathrow Express Operating Company Limited ('HEOC') under a Business Transfer Agreement ('BTA') for a value of £38 million, valued on an arm's length basis and settled by the issue by HEOC of two £1 shares to the Company at a premium of £18,999,999 each. As a result, the Company's investment in subsidiary increased by £38,000,000. Whilst it may be considered that there are indicators that the fair value is impaired management have determined that there remains sufficient uncertainty as to whether there is a permanent diminution in value and consequently no impairment has been recognised.

Key sources of estimation uncertainty

Fair value of derivative financial instruments
The fair value of derivative financial instruments is calculated using a discounted cash flow approach and using inputs based on observable market data. Judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives.

Notes to the Company financial statements for the year ended 31 December 2015

1 Segment information

As described in the Accounting policies on page 34 the Company's operating segment is Heathrow.

The performance of this segment is measured on a turnover and EBITDA basis, before certain re-measurements, and both pre and post exceptional items.

The reportable segment derives its turnover from a number of sources including aeronautical, retail, property and facilities (including property income and utilities income), and other products and services (including rail income from 1st January to 31st August 2015, see note 9), and this information is also provided to the Board on a monthly basis.

Table (a) details total turnover for the year ended 31 December 2015 and is broken down into aeronautical, retail, property and facilities, and other. Also detailed within table (a) is EBITDA which is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.

Tables (b) details comparative information to table (a) for the year ended 31 December 2014.

Table (c) details depreciation and amortisation, fair value adjustments, and profit and loss on disposals. The fair value adjustments information is not provided to the Board by reportable segment, but is included in this note as additional information.

Section (d) details turnover and fixed assets information by geographical segment.

Table (a)

Year ended 31 December 2015	Segment turnover					
	Aeronautical £m	Retail £m	ORCs £m	Other[1] £m	Total external turnover £m	EBITDA[2] £m
Heathrow	1,699	568	239	248	2,754	1,597

Reconciliation to statutory information:

Unallocated income and expense	
Depreciation and amortisation (table (c))	(682)
Operating profit (before certain re-measurements and exceptional items)	**915**
Exceptional items	236
Fair value gain on investment properties	95
Operating profit	**1,246**
Gain on transfer of business to subsidiary	38
Interest receivable and similar income	140
Interest payable and similar charges	(575)
Fair value gain on financial instruments	84
Profit before tax	**933**
Taxation before certain re-measurements and exceptional items	(125)
Taxation on certain re-measurements and exceptional items	(32)
Taxation	**(157)**
Profit after tax	**776**

[1] Includes HEX rail income. Until 1 September 2015, the Company was entitled to all receipts and income relating to HEX, the express rail service between Heathrow and central London, but the day-to-day operation of HEX was undertaken on behalf of the Company by Heathrow Express Operating Company Limited, for which a management fee was charged and included within 'Intra-group charges' in operating costs (Note 2). Since 1 September 2015 the beneficial ownership of the HEX business is transferred to Heathrow Express Operating Company Limited as a Train Operating Company on an arm's length basis. The Company is entitled to revenue related to rail access fees.

[2] EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurement and exceptional items.

Turnover of £903 million (2014: £877 million) was derived from a single external customer.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

1 Segment information *continued*

Table (b)

Year ended 31 December 2014	Segment turnover: Aero-nautical £m	Retail £m	ORCs £m	Other[1] £m	Total external revenue £m	EBITDA £m
Heathrow	1,683	524	232	255	2,694	1,553
Reconciliation to statutory information:						
Unallocated income and expense						
Depreciation and amortisation (table (c))						(572)
Operating profit (before certain re-measurements and exceptional items)						981
Exceptional items						(194)
Fair value gain on investment properties						46
Operating profit						833
Interest receivable and similar income						141
Interest payable and similar charges						(641)
Fair value gain on financial instruments						(246)
Profit before tax						87
Taxation before certain re-measurements and exceptional items						(117)
Taxation on certain re-measurements and exceptional items						66
Taxation						(51)
Profit after tax						36

[1] Includes HEX rail income. The Company is entitled to all receipts and income relating to HEX, the express rail service between Heathrow and central London, but the day-to-day operation of HEX is undertaken on behalf of the Company by Heathrow Express Operating Company Limited, for which a management fee is charged.

Turnover of £903 million (2014: £877 million) was derived from a single external customer.

Table (c)

	Year ended 31 December 2015			Year ended 31 December 2014		
	Depreciation & amortisation[1] £m	**Fair value gain[2] £m**	**Profit on disposal £m**	Depreciation & amortisation[1] £m	Fair value gain[2] £m	Profit on disposal £m
Heathrow	**(682)**	**95**	**-**	(572)	46	-

[1] Includes intangible amortisation of £35 million (2014: £25 million).
[2] Reflects fair value movements on investment properties only.

(d) Turnover and fixed asset information by geographical segment

Heathrow Airport Limited is domiciled in the UK. All turnover comes from the UK, which for the year ended 31 December 2015 was £2,754 million (2014: £2,694 million). The breakdown of the major components of total turnover is shown in tables (a), (b) and (c) above.

Fixed assets, excluding derivative financial instruments, were £13,571 million (2014: £13,521 million). There were no fixed assets held outside the UK (2014: £nil million).

2 Operating costs

The presentation of revenue and operating costs has been changed to more closely reflect the way in which the business is managed. Operating cost categories and allocations have changed. The change is to introduce a category for Operational costs which mainly includes costs from baggage operations, inter-terminal operations, IT, NATS and rents. These costs, with the exception of rent, were previously reported under General Expenses. The Maintenance category now includes cleaning which was also reported under General Expenses. The residual General Expenses are now categorised as Other costs.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

2 Operating costs *continued*

Operating costs include the following:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Employment		
Wages and salaries	**298**	309
Social security	**27**	29
Pension	**54**	60
Other staff related costs	**20**	14
Own staff costs capitalised	**(38)**	(46)
	361	366
Operational	**232**	250
Maintenance	**175**	156
Rates	**123**	112
Utilities	**90**	92
Other	**176**	165
Total adjusted operating costs	**1,157**	1,141
Depreciation and amortisation		
Property, plant and equipment	**647**	547
Intangible assets	**35**	25
	682	572
Exceptional items (Note 3)	**(236)**	194
Total operating costs	**1,603**	1,907

Rentals under operating leases

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Operating costs include:		
Land and buildings[1]	**16**	15
Other[2]	**35**	36
	51	51

[1] The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

[2] A significant portion of the operating rental costs, classified as 'other' relates to electricity supply equipment at the airport leased on agreement with UK Power Networks Services Limited ('UKPNS'). The remaining cost relates to vehicle leases.

Auditor's remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by Heathrow Airport Limited.

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts		
Audit of the Company pursuant to legislation [1]	**0.4**	0.4
Total audit fees	**0.4**	0.4
Fees payable to the Company's auditor and their associates for other services specific to the Company		
Audit related assurance services	**0.1**	0.2
Other tax services	**-**	0.2
Other assurance services	**0.2**	0.2
Total non-audit fees	**0.3**	0.6
Total fees	**0.7**	1.0

[1] Fees payable to the Company's auditor for the audit of the Company's annual accounts was £51,000 (2014: £47,000).

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

2 Operating costs *continued*

Employee information

The Company has 6,104 employees (2014: nil).

Following the disposal of Aberdeen, Glasgow and Southampton airports ('NDH1 Group') in December 2014 the directors reassessed the Company's relationship with LHR Airports Limited, given that the sole operating airport is now Heathrow. The directors noted that although employees remain legally employed by LHR Airports Limited, the Company makes all employment decisions. LHR Airports Limited is no longer deemed to be providing a service, substantive or otherwise in relation to employees, to the Company

Consequently, from 1 January 2015, employee numbers for those providing services to the operation of the airport are now reported in the 2015 financial statements of the Company and not in the financial statements of LHR Airports Limited, as was the case in 2014.

It should be noted that the above change to the presentation of the 2015 employee numbers does not constitute a change in accounting policy. It has arisen solely as a result of the sale of the NDH1 Group and is a change in accounting presentation to better reflect commercial reality.

Directors' remuneration

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Aggregate emoluments[1,2]	**4,343**	5,080
Value of Company pension contributions	**454**	239
Termination benefits	**4**	-
	4,801	5,319

[1] For the year ended 31 December 2015 salaries and benefits include salaries, allowances, directors fees, Company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').
[2] £1,528,000 of bonus was paid in cash in 2015 (2014: £1,618,000).

José Leo, John Holland-Kaye and Michael Uzielli were directors of a number of companies within the Heathrow Airport Holdings Group, including LHR Airports Limited, during the year. Their remuneration for the year ended 31 December 2015 was disclosed in the financial statements of Heathrow Airport Holdings Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided and therefore their remuneration is not included in the numbers above.

The directors participate in various Long Term Incentive Performance ('LTIP') Cash Plans. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The directors' remuneration includes £831,000 payable in 2016 (2014: £454,000 paid in 2015) in respect of the 2013 LTIP Plan after certain targets were met over the three year period from 2013 to 2015. As the financial performance in respect of the 2014 and 2015 Plans is so uncertain at this stage, no value in relation to these awards is included above.

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Highest paid director's remuneration		
Aggregate emoluments [1,2]	**993**	839
Value of Company pension contributions	**27**	47
	1,020	886

[1] For the year ended 31 December 2015 salaries and benefits include salaries, allowances, directors fees, Company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').
[2] £400,000 of bonus was paid in cash in 2015 (2014: £264,000).

The highest paid director also participates in various Long Term Incentive Performance Cash Plans. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The directors' remuneration includes £184,000 payable in 2016 (2014: £98,000 paid in 2015) in respect of the 2013 LTIP Plan after certain targets were met over the three year period from 2013 to 2015. As the financial performance in respect of the 2014 and 2015 Plans is so uncertain at this stage, no value in relation to these awards is included above.

2 Operating costs *continued*

Directors' remuneration continued

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Number of directors who are members of a:		
Defined benefit pension scheme	**2**	2
Defined contribution pension scheme	**5**	6

No directors (2014: one) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2014: none) were received or became receivable under long term incentive plans.

3 Exceptional items

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Pension past service credit: change to terms	**236**	-
Pension charge: actuarial losses	**-**	(176)
Terminal 2 operational readiness	**-**	(18)
Total operating exceptional items	**236**	(194)
Tax (charge)/credit on exceptional items	**(45)**	39
Total exceptional items after tax	**191**	(155)

Pensions

During the year, the Company agreed changes to the HAH Group's defined benefit pension scheme effective from 1 October 2015. The changes include the introduction of an annual cap of 2% on future increases to pensionable pay for active members which has resulted in a one-off reduction of £236 million in the scheme's liabilities, as measured under FRS102, and is classified as an exceptional item in the profit and loss account. There is no immediate cash flow impact as a result of these changes.

From 1 January 2015 the Company has changed its treatment in relation to the HAH Group's defined benefit pension scheme. Consequently, the net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the profit and loss account, as explained in the basis of preparation. Previously, movements in the Company's share of pension obligations was recorded as exceptional items which for the year ended 31 December 2014 were £176 million.

Operational readiness costs were associated with managing the opening of Terminal 2. Costs for the year ended 31 December 2014 were £18 million. These costs were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its opening on 4 June 2014.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

4 Net interest payable and similar charges

(a) Net interest payable and similar charges before certain re-measurements

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest receivable and similar income			
Interest receivable from group undertakings[1]		**134**	136
Interest receivable on external derivatives not in hedge relationship		**1**	2
Interest on deposits		**5**	3
		140	141
Interest payable and similar charges			
Interest payable to group undertakings[2]		**(567)**	(668)
Interest on bank borrowings		**(8)**	(28)
Interest payable on external derivatives not in hedge relationship		**(10)**	(15)
Facility fees and other charges		**(7)**	(14)
Unwinding of discount on provisions		**(1)**	(1)
Dividend payable on irredeemable preference shares[3]	*14*	**-**	(1)
Net pensions finance costs		**(4)**	(3)
		(597)	(730)
Less: capitalised borrowings costs[4]	*7*	**22**	89
		(575)	(641)
Net interest payable and similar charges before certain re-measurements		**(435)**	(500)

[1] These amounts relate primarily to interest accrued on balances due from Heathrow (SP) Limited (Note 11).
[2] These amounts relate mainly to interest due on the Borrower Loan Agreement ('BLA') advances and back-to-back derivatives not in hedge relationship with Heathrow Funding Limited and interest on the loan from Heathrow (AH) Limited (Note 15).
[3] Dividend payable for the year ended 31 December 2015 was 4.49p per share (2014: 4.40 per share).
[4] Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.20% (2014: 5.87%) to expenditure incurred on such assets.

(b) Fair value gain/(loss) on financial instruments

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest rate swaps	**41**	(232)
Index-linked swaps[1]	**43**	(15)
Fair value re-measurements of foreign exchange contracts and currency balances	**-**	1
Fair value gain/(loss) on financial instruments	**84**	(246)
Net interest payable and similar charges	**(351)**	(746)

[1] Reflects the impact on the valuation of movements in implied future inflation and interest rates, and accounting adjustments in respect of accretion.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

5 Taxation

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
UK corporation tax		
Current tax at 20.25% (2014: 21.5%)	**(40)**	7
Group relief payable	**(54)**	(37)
(Under)/Over provision in respect of prior years	**(5)**	3
Deferred tax		
Current year	**(107)**	(20)
Prior year	**3**	(4)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**46**	-
Tax charge on profit on ordinary activities	**(157)**	(51)

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit on ordinary activities before tax	933	87
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 20.25% (2014: 21.5%)	**(189)**	(19)
Adjustments in respect of current tax of previous years	**(5)**	3
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**46**	-
Non-deductible expenses	**(12)**	(31)
Adjustments in respect of deferred tax of previous years	3	(4)
Tax charge on profit on ordinary activities	(157)	(51)

The tax charge recognised for the year ended 31 December 2015 was £157 million (2014: £51 million charge). Based on a profit before tax for the year of £933 million (2014: £87 million), this results in an effective tax rate of 16.8% (2014: 58.6%).

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will reduce from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Consequently the Group's significant deferred tax balances, which were previously provided at 20%, were re-measured at the future tax rate at which the Group believes the timing differences will reverse and this has resulted in a net reduction in the deferred tax liability and a corresponding net deferred tax credit of £46 million being recognised in the profit and loss account. Excluding the impact of the change in future UK tax rates, and adjusting for certain re-measurements and exceptional items, the tax charge recognised for the year on ordinary activities of £125 million (2014: £117 million) results in an effective tax rate of 26.0% (2014: 24.3%) which is more (2014: more) than implied by the statutory rate of 20.25% (2014: 21.5%) primarily because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

In addition, in 2015 the Organisation for Economic Co-operation and Development (OECD) released its final reports on base erosion and profit shifting (BEPS). The OECD BEPS project, addressing perceived flaws in international tax rules, could impact the future tax charge, but it is too early to quantify any impact at this stage.

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

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

6 Intangible assets

	£m
Cost	
1 January 2014	172
Additions	32
Disposals	(27)
1 January 2015	**177**
Additions	**25**
Transfers from property, plant and equipment	**29**
Disposals	**(4)**
31 December 2015	**227**
Amortisation	
1 January 2014	(65)
Charge for the year	(25)
Disposals	27
1 January 2015	**(63)**
Charge for the year	**(35)**
Disposals	**4**
31 December 2015	**(94)**
Net book value	
31 December 2015	**133**
31 December 2014	114

All intangible assets relate to capitalised computer software costs. These software costs principally relate to operating and financial software. These assets are being amortised over a period of between three and seven years. Amortisation for the year has been charged through operating costs.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

7 Tangible fixed assets

	Note	Terminal complexes £m	Airfields £m	Plant equipment and other assets £m	Other land and buildings £m	Rail assets £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2014		8,163	1,431	433	127	1,395	3,537	15,086
Additions		-	-	3	-	-	617	620
Transfers to completed assets		2,654	110	467	9	11	(3,251)	-
Borrowing costs capitalised	4	-	-	-	-	-	89	89
Disposals		(119)	(3)	(29)	(5)	(2)	-	(158)
Transfers from/(to) investment properties	8	(10)	(2)	-	-	-	-	(12)
Reclassifications		-	1	(3)	-	-	1	(1)
1 January 2015		**10,688**	**1,537**	**871**	**131**	**1,404**	**993**	**15,624**
Additions		-	-	-	-	-	**554**	**554**
Transfers to completed assets		**581**	**201**	**13**	**56**	**44**	**(895)**	-
Transfer to intangibles		-	-	-	-	-	**(29)**	**(29)**
Borrowing costs capitalised	4	-	-	-	-	-	**22**	**22**
Disposals		**(70)**	-	**(29)**	-	-	-	**(99)**
31 December 2015		**11,199**	**1,738**	**855**	**187**	**1,448**	**645**	**16,072**
Depreciation and impairment								
1 January 2014		(2,862)	(309)	(277)	(45)	(393)	-	(3,886)
Depreciation charge		(400)	(34)	(64)	(6)	(43)	-	(547)
Disposals		119	3	29	5	2	-	157
Reclassifications		(1)	(1)	1	-	1	-	-
1 January 2015		**(3,144)**	**(341)**	**(311)**	**(46)**	**(433)**	-	**(4,275)**
Depreciation charge		**(459)**	**(46)**	**(86)**	**(9)**	**(47)**	-	**(647)**
Disposals		**70**	-	**28**	-	-	-	**98**
31 December 2015		**(3,533)**	**(387)**	**(369)**	**(55)**	**(480)**	-	**(4,824)**
Net book value								
31 December 2015		**7,666**	**1,351**	**486**	**132**	**968**	**645**	**11,248**
31 December 2014		7,544	1,196	560	85	971	993	11,349

Operational land
The deemed cost of certain operational land on transition to FRS 102 has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Company occupied assets and included the terminals and airfields. It did not relate to land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors' appraisal and valuation manual, having regard to comparable market evidence. This resulted in a one-off valuation uplift in the value of airfield assets of £360 million. Further details are provided in Note 23.

Other land and buildings
Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2015 of £11 million (2014: £9 million).

Assets in the course of construction
The major balances in assets in the course of construction are the Assets Management programme to replace depreciated assets, the Terminal 3 Integrated Baggage project, which will enable the processing of all its check in and transfer baggage under one roof, and the Passenger Experience project.

Borrowing costs capitalised
During the year ended 31 December 2015, borrowing costs of £22 million were capitalised (2014: £89 million). Capitalised borrowing costs for both continuing and discontinued operations were calculated by applying an average interest rate of 5.20% (2014: 5.87%) to expenditure incurred on qualifying assets.

A tax deduction of £22 million (2014: £89 million) for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

7 Tangible fixed assets *continued*

Leased assets

The Company had assets rented to third parties under operating leases as follows:

	31 December 2015 £m	31 December 2014 £m
Cost or valuation	686	674
Accumulated depreciation	(239)	(209)
Net book value	**447**	465

Security granted by the Company over its assets, including tangible fixed assets, is disclosed in Note 15.

8 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
1 January 2014		1,787	131	1,918
Additions		-	78	78
Transfers to completed assets		205	(205)	-
Revaluation[1]		42	4	46
Transfers from tangible fixed assets	7	11	1	12
1 January 2015		**2,045**	**9**	**2,054**
Additions		**7**	**-**	**7**
Transfers to completed assets		**9**	**(9)**	**-**
Revaluation		**95**	**-**	**95**
31 December 2015		**2,156**	**-**	**2,156**

[1] The revaluation in 2014 included £4 million in respect of a car park under construction at Terminal 5; this asset became operational in 2015.

Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors.

All valuations were prepared on a basis appropriate for FRS 102 and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. There were no restrictions on the realisability or remittance of income or proceeds on disposal.

The company has historically had a low level of void properties.

A significant proportion of freehold property is occupied by third parties under concession and management agreements. Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £1 million (2014: £1 million) for which a similar amount is included within operating costs.

Security granted by the Company over its assets, including investment properties, is disclosed in Note 15.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2015 was £1,390 million (2014: £1,383 million).

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

9 Investment in subsidiary

	31 December 2015 £m	31 December 2014 £m
Cost at 1 January	4	4
Addition[1]	38	-
Cost at 31 December	**42**	4

[1] Addition to cost of investment in subsidiary on the transfer of the beneficial ownership of Heathrow Express ("HEX") and Connect businesses from HAL to Heathrow Express Operating Company Limited ("HEOC") on an arm's length consideration based on market valuation as of the 1 September 2015 for the transaction value of £38 million. HEOC received a right to operate the HEX and connect business but the ownership of the fixed assets remained with HAL.

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

Heathrow Express Operating Company Limited, a company registered in England and Wales, operates the express rail service between Heathrow and central London.

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

10 Stocks

	31 December 2015 £m	31 December 2014 £m
Raw material and consumables	11	10

The total amount of inventories consumed in the year was £6 million (2014: £4 million). There is no material difference between the carrying value of stocks and their replacement cost.

11 Debtors

	Note	31 December 2015 £m	31 December 2014 £m
Due within one year			
Trade debtors		172	204
Term deposits		550	170
Amounts owed by group undertakings – interest free[1]		24	44
Other debtors		14	12
Prepayments		28	23
Interest receivable		53	53
		841	506
Due after more than one year			
Amounts owed by group undertakings – interest bearing[2]		1,916	1,763
Derivative financial instruments	*16*	8	-
Prepaid debt fees		6	6
Retirement benefit surplus	*17*	104	-
Prepayments		16	17
		2,050	1,786
Total debtors		2,891	2,292

[1] Amounts owed by group undertakings – interest free largely relate to external payments received by LHR Airports Limited under the SSA on behalf of the Company which will be remitted in due course.

[2] Amounts owed by group undertakings – interest bearing represents a loan receivable from Heathrow (SP) Limited. It has a fixed interest rate of 7.57%.pa and is repayable on 20 August 2018.

12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments, and bank overdrafts. Cash and cash equivalents consist of:

	31 December 2015 £m	31 December 2014 £m
Cash at bank and in hand	6	197
Short-term deposits	162	68
	168	265

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk.

13 Creditors: amounts falling due within one year

	Note	31 December 2015 £m	31 December 2014 £m
Trade creditors[1]		145	123
Capital creditors		122	176
Amounts owed to group undertakings – interest free[2]		87	102
Amounts owed to group undertakings – interest bearing[3]		-	19
Borrowings from group undertakings	15	963	811
External borrowings	15	39	41
Derivative financial instruments	16	-	1
Corporation tax payable		16	-
Group relief payable		54	2
Other taxation and social security		7	8
Other creditors		8	8
Deferred income		30	29
		1,471	1,320

[1] Trade creditors are non-interest bearing and generally on 30-day terms.
[2] Amounts owed to group undertakings – interest free largely relate to external payments made by LHR Airports Limited under the SSA on behalf of the Company.
[3] Amounts owed to group undertakings – interest bearing mainly represented a loan payable to Heathrow Express Operating Company Limited accruing interest at the Bank of England base rate + 1.5%.

14 Creditors: amounts falling due after more than one year

	Note	31 December 2015 £m	31 December 2014 £m
Borrowings from group undertakings	15	11,241	10,970
External borrowings	15	347	236
Derivative financial instruments	16	592	828
Retirement benefit obligation		28	-
Preference shares		23	23
Other creditors		11	4
		12,242	12,061

Preference shares

The Company has 100,000 £1 redeemable preference shares in issue which carry an entitlement to an annual dividend fixed by reference to the prospective real redemption rate, based on projected inflation rate of 3%, of 2.5% index-linked 2016 UK gilts, plus 1.46% and uplifted for movements in RPI. The preference shares were redeemed by the Company on 16 January 2016 at £1.37 per share, uplifted for movements in RPI since issue.

The Company has 21,960,014 £0.01 irredeemable preference shares in issue which carry an entitlement to an annual dividend based on 12-month sterling LIBOR plus a premium of 3.52%. The holder of the irredeemable preference shares cannot attend or vote at General Meetings. On a return of capital on winding up or capital reduction, the holder of the irredeemable preference shares shall be entitled to a sum calculated in accordance with the Articles of Association, in priority to any payment to the holders of any other class of shares.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

15 Borrowings

	31 December 2015 £m	31 December 2014 £m
Amounts falling due within one year		
Secured		
Bank loans	**39**	39
BLA advances from Heathrow Funding Limited	**740**	618
Unsecured		
Due to group undertaking	**35**	7
Total excluding interest payable	**814**	664
Interest payable	**1**	2
Amounts owed to group undertakings – interest payable	**187**	186
	1,002	852
Amounts falling due after more than one year		
Secured		
BLA advances from Heathrow Funding Limited	**11,241**	10,970
Bank loans	**97**	136
Term note – 3.77% £100 million due 2026	**100**	100
Term note – 2.63% £80 million due 2030	**80**	-
Term note – 2.97% £70 million due 2035	**70**	-
	11,588	11,206
Total borrowings	**12,590**	12,058

The table below analyses the contractual maturity of the Company's borrowings falling due after more than one year:

	31 December 2015 £m	31 December 2014 £m
One to two years	**855**	833
Two to five years	**1,729**	2,131
Over five years	**9,004**	8,242
	11,588	11,206

Borrowings from group undertakings

Heathrow Funding Limited, a fellow subsidiary company, raises funds from external sources through the issuance of external bonds and use of external derivatives. The proceeds raised are distributed to the Company under the terms of the BLAs. Advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by Heathrow Funding Limited, taking into consideration certain of the related hedging instruments. Interest rate swaps, index-linked swaps and cross-currency swaps are entered into by Heathrow Funding Limited to hedge the SP Group's exposures. Interest rate and index-linked derivatives are mainly passed through to the Company as back-to-back derivatives, or otherwise incorporated into the related BLAs. Cross-currency swaps are packaged with external non-sterling debt and passed through to the Company under the BLAs.

During the year, following new bonds issued by Heathrow Funding Limited, further advances were made to the Company for £1,022 million (2014: £1,269 million), net of transaction costs. In the same period, the Company made repayments of £619 million (2014: £513 million). The effective interest rate on the BLA advances varies between 1.09% and 7.40% (2014: 1.65% and 7.40%).

The unsecured loan from Heathrow (AH) Limited bears an interest rate of 7.57% per annum.

Facilities

All of the facilities are carried at amortised cost.

The Company had £1,475 million undrawn committed borrowing facilities available as at 31 December 2015 (2014: £1,525 million). In addition, as at 31 December 2015, there was an overdraft limit up to a maximum net overdraft balance of £10 million (2014: £10 million).

Securities and guarantees

The Company, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security over their assets to secure their obligations to the Borrower Secured Creditors under their financing agreements. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

15 Borrowings *continued*

Securities and guarantees continued

BAA Pension Trust Company Limited is a Borrower Secured Creditor and has a right to receive up to approximately £284 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

The Company and Heathrow Express Operating Company Limited have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of their liabilities under the Borrower Account Bank Agreement.

16 Derivative financial instruments

31 December 2015	Notional £m	Assets £m	Liabilities £m	Total £m
Within one year				
Interest rate swaps[1]	-	-	-	-
	-	-	-	-
After more than one year				
Interest rate swaps[1]	2,913	-	(405)	(405)
Index-linked swaps[2]	3,523	8	(187)	(179)
	6,436	8	(592)	(584)
Total	6,436	8	(592)	(584)
31 December 2014				
Within one year				
Interest rate swaps[1]	100	-	(1)	(1)
	100	-	(1)	(1)
After more than one year				
Interest rate swaps[1]	2,113	-	(447)	(447)
Index-linked swaps[2]	3,373	-	(381)	(381)
	5,486	-	(828)	(828)
Total	5,586	-	(829)	(829)

[1] £2,913 million (2014: £1,903 million) notional value of interest rate swaps relate to back-to-back hedges with Heathrow Funding Limited.
[2] £3,523 million (2014: £3,373 million) notional value of index-linked swaps relate to back-to-back hedges with Heathrow Funding Limited.

Derivative financial instruments at fair value

The Company enters into derivative transactions, principally interest rate swaps, index-linked swaps and foreign exchange contracts. The purpose of these transactions is to manage interest rate, inflation and currency risks arising from the Company's operations and sources of finance. The Company does not apply hedge accounting in relation to any of its derivative financial instruments.

Interest rate swaps

During the year, the Company novated all its interest rate swap contracts outstanding with bank counterparties with notional values totalling £310 million to Heathrow Funding Limited. At the novation date, these financial instruments had a mark-to-market liability of £94 million (2014: £94 million), and packaged in back to back swaps to HAL. As at 31 December 2015, the total notional amount of back-to-back interest rate swaps was £2,913 million which had a mark-to-market liability of £405 million (2014: £2,213 million notional with a mark-to-market liability of £448 million).

Index-linked swaps

Index linked swaps have been entered into to economically hedge debt instruments and RPI linked revenue. Heathrow Funding Limited has entered into index linked swaps with external counterparties which have been issued to the Company as back-to-back hedges and the total notional amount of back-to-back index linked swaps was £3,523 million which had a mark-to-market net liability of £179 million (2014: £3,373 million notional with a mark-to-market liability of £381 million).

Financial instruments at fair value by category

All of the Company's financial assets and financial liabilities that are held at fair value are classified as derivative financial instruments, and are disclosed above.

Treasury risk management

The Company's financial risk management objectives are aligned with Heathrow Airport Holdings Limited and with Heathrow (SP) Limited, which is the level at which financial risks for the Company are managed. The treasury policies of

16 Derivative financial instruments *continued*

Treasury risk management ***continued***

the SP Group have been disclosed in the internal controls and risk management section of the Strategic report in its statutory annual report and financial statements.

Fair value estimation

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include:

- market prices for credit spreads based on counterparty's credit default swap prices and the Company's bond spread;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

17 Retirement benefit obligations

LHR Airports Limited is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post – Retirement Medical Benefits ('PRM') scheme.

As at 31 December 2014 and as part of the SSA, the operating entities of the group were required to fund their share of the retirement benefit schemes and were required to record their share of the position on these schemes in their financial statements. The operating entities, in the context of the SSA, as at 31 December 2014, were Heathrow Airport Limited and Heathrow Operating Express Company Limited. The relevant share of the position on the retirement benefit schemes attributed to HAL was 99.7%. The remainder was allocated to HEX. LHR Airports Limited recorded the external position of the retirement benefit schemes but then pushed the position down to the operating entities. LHR Airports Limited recorded an intercompany from the operating entities in relation to the external position.

In 2015 the directors reassessed Heathrow Airport Limited's relationship with the legal sponsor of the retirement benefit schemes given that the Group's sole operating airport was now Heathrow. The directors determined, after taking into account the SSA, employment relationships and the funding risk associated with the schemes, that Heathrow Airport Limited now acts as principal in relation to these schemes. As a result, Heathrow Airport Limited now recognises an external position, in relation to the schemes, on its statement of financial position as non-current under the caption of Retirement benefit obligations and no longer records an intercompany position with LHR Airport Limited. Additionally, it is now considered appropriate for Heathrow Airport Limited to record actuarial gains and losses on the external scheme within other comprehensive income. This differs from the prior periods where Heathrow Airport Limited recorded a share of the actuarial gains and losses, treated as an intercompany recharge, as an exceptional item in Heathrow Airport Limited's profit and loss account. LHR Airports Limited recorded as an exceptional operating gain an amount receivable from the entities party to the SSA due to movements in the defined benefit pension scheme.

There is no impact on cash or net assets as a result of this change as it is not a change in accounting policy. This change has arisen as a result of the disposal of Airport Holdings NDH1 Limited, the holding company of a group of companies (together the 'NDH1 Group') that principally owned and operated three airports in the UK located in Glasgow, Aberdeen and Southampton. Consequently there will be no restatement of financial information in the prior period to align with our new method of accounting presentation.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

17 Retirement benefit obligations *continued*
BAA Pension Schemes

	31 December 2015 £m	31 December 2014 £m	31 December 2013 £m	31 December 2012 £m	31 December 2011 £m
Fair value of plan assets at end of year	**3,288**	3,274	2,867	2,791	2,691
Benefit obligation at end of year	**(3,184)**	(3,473)	(2,960)	(2,894)	(2,652)
Gross surplus/(deficit) in BAA Pension Scheme	**104**	(199)	(93)	(103)	39
Related deferred tax (liability)/asset	**(19)**	40	19	24	(10)
Net surplus/(deficit) in BAA Pension Scheme	**85**	(159)	(74)	(79)	29
Unfunded pension obligations	**(22)**	(23)	(23)	(24)	(23)
Post-retirement medical benefits	**(6)**	(6)	(5)	(6)	(6)
Gross deficit on other pension and post-retirement benefit obligations	**(28)**	(29)	(28)	(30)	(29)
Related deferred tax asset[1]	**5**	6	5	7	7
Net deficit on other pension and post-retirement benefit obligations	**(23)**	(23)	(23)	(23)	(22)

[1] The deferred tax asset was transferred in from LHR Airports Limited in 2015.

(a) BAA Pension Schemes

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
BAA Pension scheme (Note 17(a))	46	59
Defined contribution schemes	8	8
Total operating charge to employment costs	**54**	**67**

LHR Airports Limited operates one main pension scheme for its UK employees, the BAA Pension Scheme (the 'Scheme'), which is a funded defined benefit scheme with both open and closed sections. The Scheme closed to employees joining the Heathrow Airport Holdings Group after 15 June 2008. The Scheme's assets are held separately from the assets of the Company and are administered by trustees.

The value placed on the scheme's obligations as at 31 December 2014 is based on the full actuarial valuation carried out at 30 September 2013. This has been updated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS19 Employee Benefits. The Scheme assets are stated at their bid value at 31 December 2015. The Company's accounting policy is to recognise actuarial gains and losses as they occur in the statement of comprehensive income.

The financial assumptions used to calculate the Scheme assets and liabilities under IAS 19 are:

	31 December 2015 %	31 December 2014 %
Rate of increase in pensionable salaries	**2.0**	4.7
Increase to deferred benefits during deferment	**2.5**	2.5
Increase to pensions in payment:		
Open section	**3.2**	3.1
Closed section	**3.3**	3.2
Discount rate	**3.8**	3.6
Inflation assumption	**3.3**	3.2

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 27.3 years (2014: 27.1 years) and 29.7 years (2014: 29.6 years) from age 60 for a 40 year old male non-pensioner.

17 Retirement benefit obligations *continued*

(a) BAA Pension Schemes continued

The accounting standard requires that the discount rate used to discount the liability, be determined by reference to market yields at the reporting date on high quality corporate bond investments. The currency and terms of these should be consistent with the currency and estimated term of the post-employment obligations. The discount rate has been based on the yield on AA rated corporate bonds of a term similar to the liabilities.

The expected rate of inflation is an important assumption for the salary growth and pension increase assumptions. A rate of inflation is "implied" by the difference between the yields on fixed and index-linked government bonds. To develop the expected long-term rate of return on assets assumption, the Heathrow Airport Holdings Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

For bond investments with fixed interest rates the expected yield is derived from their market value.

In respect of the equity investments, investment returns are variable and are generally considered 'riskier' investments. It is generally accepted that the return on equity investments contains a premium, the 'equity risk premium', to compensate investors for the additional risk of holding this type of investment. There is significant uncertainty about the size of this risk premium. The assumption chosen is within the range of long-term market expectations.

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 5.1% assumption (2014: 5.1%).

The target asset allocation consistent with the scheme investment policy is 30:70 growth assets to matching assets.

The amounts charged to profit and loss account, in relation to the BAA pension schemes, are as follows:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Current service cost	**46**	57
Past service cost[1]	**-**	2
Past service credit[2]	**(236)**	-
Total charge to the profit and loss account	**(190)**	59

[1] Past service costs relate to abatement costs.
[2] Past service credit relates to a one-off reduction of £236 million as a result of the annual cap of 2% on future increases in pensionable pay.

The amounts recognised in the statement of other comprehensive income in relation to the BAA pension schemes:

	Year ended 31 December 2015 £m
Return on assets in excess of profit and loss credit	**(125)**
Experience gains and losses arising on the benefit obligation	**-**
Changes in assumptions underlying the present value of the benefit obligation	**120**
Actuarial loss recognised in the statement of other comprehensive income[1 2]	**(5)**

[1] The actuarial loss, on the defined benefit pension scheme, recognised in the statement of other comprehensive income before tax is £5 million (2014: £198 million loss).
[2] Total cumulative actuarial losses recognised in equity were £559 million (2014: £554 million) on the defined benefit scheme.

For the year ended 31 December 2015 there was a reduction on asset value of £7 million (2014: return of £527 million).

The actuarial loss on the defined benefit pension scheme of £5m resulted from actual return of assets being £125 million lower than the expected return and a £120 million gain due to changes in financial assumptions.

The actuarial gain on change in financial assumptions is mainly attributable to an increase in the net yield of 0.25% over the year leading to an increase in the single equivalent discount rate assumption of 0.25% to 3.80% (2014: 3.55%). The actuarial loss of £125 million (2014: gain of £381 million) is due to assets underperforming relative to the discount rate over the year.

17 Retirement benefit obligations *continued*
(a) BAA Pension Schemes continued

The amounts recognised in the balance sheet are determined as follows:

	31 December 2015 £m	31 December 2014 £m
Fair value of plan assets		
Equities	**758**	668
Bonds	**1,032**	1,123
Other[1]	**1,498**	1,483
Total fair value of plan assets	**3,288**	3,274
Present value of benefit obligation	**(3,184)**	(3,473)
Net pension surplus/(deficit)	**104**	(199)

[1] Other includes £112 million (2014: £275 million) of hedge funds and £1,386 million (2014: £1,208 million) of interest rate and inflation instruments.

Analysis of movement in the benefit obligation:

	2015 £m	2014 £m
Benefit obligation at 1 January[1]	**3,473**	2,960
Movement in the year:		
Current service cost	**46**	58
Past service gain[2]	**(236)**	(31)
Finance cost	**121**	133
Members' contributions	**6**	8
Actuarial (gain)/loss	**(120)**	596
Bulk liabilities transferred on sale of NDH1 group	**-**	(135)
Experience (gain)/ loss	**-**	(17)
Benefits paid (by fund and company)	**(106)**	(99)
Benefit obligation at 31 December	**3,184**	3,473

[1] As at 1 January 2015 the Company has taken on the pension liability relating to Heathrow Express Operating Company Limited.
[2] The Company agreed changes to the defined benefit pension scheme effective from 1 October 2015. The changes included the introduction of an annual cap of 2% on future increases to pensionable pay for active members. The changes resulted in a one-off reduction of £236 million in the scheme's liabilities, as measured under FRS 102 Section 28 paragraph 77 ('FRS 102.28.77') and are classified as an exceptional item in the profit and loss account. There is no immediate cash flow impact as a result of these changes.

As part of the triennial review of the Defined Benefit Pension Scheme, completed in 2014, based on the Scheme's valuation as at 30 September 2013 it was agreed that the new contribution will be £98 million per annum (out of which £39 million related to deficit reduction) commencing from 1 January 2015. The contribution will then reduce to £83 million per annum from 1 January 2019 until 31 December 2020.

Movements in the fair value of the plan assets were as follows:

	2015 £m	2014 £m
Fair value of plan assets at 1 January	**3,274**	2,867
Profit and loss account credit on plan assets	**118**	146
Return on assets in excess of profit and loss account credit	**(125)**	381
Employer contributions (including benefits paid and reimbursed)	**73**	108
Administration expenses	**(2)**	(5)
NDH1 commutation payment [1]	**50**	-
Members' contributions	**6**	8
Bulk transferred assets on sale of NDH1 group	**-**	(132)
Benefits paid (by fund and company)	**(106)**	(99)
Fair value of plan assets at 31 December	**3,288**	3,274

[1] The commutation payment of £50 million was made as a result of the NDH1 Group disposal on 18 December 2014.

17 Retirement benefit obligations *continued*
a) BAA Pension Schemes continued

History of experience gains and (losses):

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Difference between the expected and actual return on scheme assets:					
Amount £m	**(125)**	381	12	(29)	174
Percentage of scheme assets	**(3.8)**	11.6	0.4	(1.0)	6.5
Experience (losses) and gains on benefits obligations:					
Amount £m	**-**	17	(2)	5	(70)
Percentage of benefit obligation	**0.0**	0.5	(0.1)	0.2	(2.6)
Amount recognised in other comprehensive income/ the statement of total recognised gains and (losses) :					
Amount £m	**(5)**	(198)	(76)	(210)	10
Percentage of benefit obligation	**(0.2)**	(6.0)	(2.6)	(7.3)	0.4

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the discount rate:

	Annual impact in profit and loss account		Impact in equity	
	£m	£m	£m	£m
Sensitivity analysis based on change in discount rate	Before tax	After tax	Before tax	After tax
+0.50% discount rate	(3)	(2)	(287)	(235)
- 0.50% discount rate	4	3	330	271

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the inflation rate:

	Annual impact in profit and loss account		Impact in equity	
	£m	£m	£m	£m
Sensitivity analysis based on change in inflation rate	Before tax	After tax	Before tax	After tax
+ 0.50% inflation rate	2	2	262	215
- 0.50% inflation rate	(2)	(2)	(234)	(192)

A change in the mortality assumption causing a one year increase in life expectancy would have a £94 million impact on the defined benefit obligation and a £1million impact on the forward looking service cost.

(b) Other pension and post-retirement liabilities

Defined contribution scheme
The Company operates a defined contribution scheme for all employees who joined after 15 June 2008. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £8 million (2014: £8 million).

17 Retirement benefit obligations *continued*

(b) Other pension and post retirement liabilities continued

UURBS & PRM Schemes

The Company provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the scheme rules. In addition the Company provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £6 million (2014: £6 million) is included in the balance sheet, along with provision for unfunded pension obligations of £22 million (2014: £23 million). The value of these unfunded pension obligations have been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

The finance cost in relation to the UURBS & PRM schemes amounted to £1.1 million (2014: £1.3 million).

An experience gain of £0.5 million (2014: £0.4 million gain) arose due to an updated valuation of the UURBS & PRM scheme arrangements.

A net actuarial gain of £0.8 million was recognised in relation to the UURBS & PRM schemes. This net gain arose as a result of changes in financial assumptions.

18 Provisions for liabilities and charges

	Deferred tax £m	Pension costs £m	Other[2] £m	Total £m
1 January 2014	362	106	16	484
Utilised	-	-	(4)	(4)
Charged to profit and loss account	24	-	-	24
Charged to other comprehensive income	3	-	-	3
Movement in pensions	-	122	-	122
Transfers in	3	-	-	3
Unwinding of discount	-	-	1	1
1 January 2015	**392**	**228**	**13**	**633**
Utilised	**-**	**-**	**(1)**	**(1)**
Charged to profit and loss account	**58**	**-**	**5**	**63**
Charged to other comprehensive income [1]	**1**	**-**	**-**	**1**
Change in pensions accounting	**-**	**(228)**	**-**	**(228)**
Transfer in of deferred tax asset	**(6)**	**-**	**-**	**(6)**
Transfer to creditors	**-**	**-**	**(10)**	**(10)**
31 December 2015	**445**	**-**	**7**	**452**

[1] This includes a release of £8 million relating to the change in the deferred tax rate and a charge of £9 million relating to retirement benefits.

[2] During the year ended December 2015, a deed of amendment was signed between Heathrow Airport Limited and The Secretary of State for Transport in relation to a maintenance obligation on the spur road at Terminal 5. As a result of this amendment, this liability has been transferred to creditors.

Deferred tax

Analysis of the deferred tax balance is as follows:

	31 December 2015 £m	31 December 2014 £m
Excess of capital allowances over depreciation	**286**	290
Retirement benefit obligations	**14**	(40)
Other timing differences	**(6)**	-
Derivatives	**(78)**	(93)
Investment properties	**202**	204
Operational land	**27**	31
	445	392

Provision has been made for deferred taxation in accordance with FRS 102. Of the £445 million liability at 31 December 2015, £1 million will reverse in the next 12 months (excluding any reversal arising from future fair value adjustments, as these cannot be estimated).

18 Provisions for liabilities and charges ***continued***

Deferred tax

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. As a result, the Group's deferred tax balances, which were previously provided at 20%, were re-measured at the rate at which the Group believes the timing differences will reverse. This resulted in a reduction in the net deferred tax liability of £54 million, with £46 million credited to the profit and loss account and £8 million credited to other comprehensive income. Other than the unprovided deferred tax discussed below, there are no other items which would materially affect the future tax charge.

Pensions

As permitted by FRS 102, the additional disclosures on the pension scheme have been provided in the statutory Annual report and financial statements of Heathrow Airport Holdings Limited and FGP Topco Limited.

As noted in the Accounting policies, from 1 January 2015 the Group has changed its treatment of defined benefit pension scheme, movements in these provisions or assets arose due to current service costs, net finance costs or income, employer cash contributions and actuarial gains or losses. Heathrow Airport Limited now acts as principal in relation to these schemes and consequently now recognises an external asset or liability, in relation to the schemes, on its statement of financial position, as non-current under the caption of Retirement benefit surplus/obligations.

Other

These provisions relate to insurance claims liability from incidents which occurred at Heathrow airport.

19 Reserves

Share capital

Called up, allotted and fully paid

	£
Ordinary shares	
1 January and 31 December 2015	
1,575,570,317 ordinary shares of £0.30 each	472,671,095

Preference shares[1]	
1 January and 31 December 2015	
100,000 preference shares – redeemable of £1 each[2]	100,000
21,960,014 preference shares – irredeemable of £0.01 each	219,600

[1] Recorded within creditors (refer to Note 14).
[2] The redeemable preference shares were redeemed by the Company on 16 January 2016 at £1.37 per share, uplifted for movements in RPI since issue.

Revaluation reserve

The revaluation reserve records gains and losses on investment properties and operational land. For movement during the year refer to the statement of change in equity.

Profit and loss reserve

The profit and loss reserve relates to historical profits and losses of the Company, dividends distributions and transactions with shareholders. For movement during the year refer to the statement of change in equity.

20 Dividends

During the year ended 31 December 2015, the Company paid dividends of £361 million to Heathrow (AH) Limited comprising £33 million on 27 February 2015, £80 million on 4 March 2015, £83 million on 30 June 2015, £75 million on 24 July 2015 and £90 million on 16 December 2015. (2014: £419 million to Heathrow (AH) Limited, comprising £59 million on 21 February 2014, £79 million on 27 June 2014, £56 million on 25 July 2014, £85 million on 23 September 2014 and £140 million on 18 December 2014).

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

21 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Company as a lessee

Total future minimum rentals payable as at the year end are as follows:

	31 December 2015		31 December 2014	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**12**	**42**	12	34
Within two to five years	**29**	**156**	36	102
After five years	**10**	**592**	12	485
	51	**790**	60	621

The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Company also leases plant and machinery under non-cancellable operating leases.

A significant portion of the commitments classified as 'other' relates to electricity supply equipment leased on agreement with UK Power Networks Services Limited ('UKPNS'). The lease expires in 2083. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UKPNS as neither the Company nor UKPNS are able to split the base fee between a 'capital' and 'maintenance' charge. The commitment has been discounted at the Company's incremental borrowing rate.

Non-cancellable operating lease commitments – Company as a lessor

Total future minimum rentals receivable as at the year end are as follows:

	31 December 2015 Land and buildings £m	31 December 2014 Land and buildings £m
Within one year	**95**	93
Within two to five years	**291**	320
After five years	**1,745**	1,585
	2,131	1,998

The Company uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months' notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Public car parks are covered by a single management contract.

Commitments for capital expenditure

	31 December 2015 £m	31 December 2014 £m
Contracted for, but not accrued:		
Western Baggage product	**67**	29
Terminal restoration and modernisation	**53**	2
Tunnel refurbishment	**21**	69
IT projects	**17**	13
Capacity optimisation	**14**	48
	172	161
Other projects	**29**	38
	201	199

21 Commitments and contingent liabilities continued

Commitments for capital expenditure continued

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. Capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 is currently forecast to be £2.9 billion. The capital programme may increase to up £3.3 billion, in line with the regulatory settlement. This is subject to further scoping of the remaining individual projects and approval of the corresponding business cases. The capital programme is primarily focused on maintenance and compliance related projects, together with sustaining and improving the passenger experience. The capital plan for the period includes a £1 billion programme of assets management projects and a project to implement latest generation hold baggage screening equipment to comply with EU directive. Capital spend in 2016 is forecast to be in the region of £730 million.

Other commitments

In July 2015 the Airports Commission announced its recommendation of Heathrow's proposal for a third runway. In December 2015 the UK Government indicated that it needed to undertake some additional environmental analysis before determining whether to support the Commission's recommendation. The additional analysis is expected to conclude in the summer of 2016.

In the event of the UK Government accepting the Airport Commission's recommendation of Heathrow's proposal for a third runway, the Group plans to compensate those residents who become affected by the airport expansion. The Group recognises that local residents should be properly compensated when impacted by airport expansion, subject to CAA approval. An announced £450 million increase to the noise insulation offer in February 2015 means that 160,000 local homes will be eligible for insulation. This scheme, worth £700 million in total and entirely privately funded, goes above and beyond UK policy requirements, expands on Heathrow's previous proposals, and is comparable to those offered by other European hub airports. Most importantly, this new offer comes as a direct result of local consultations, and the input of the over 13,000 people who had a say on plans for expansion.

In June 2006, the government concluded a night flights regime at Heathrow for the period 2006-12. Further consultations, and a review of aviation policy, which included reference to noise insulation and mitigation schemes, have extended the existing night flights regime until October 2017. Under the proposals there is an expectation that Heathrow will operate a voluntary scheme to mitigate the impact of aircraft noise. Heathrow has indicated that it will continue to offer a range of insulation schemes for both homes and community buildings that meet certain criteria. The Group is unable to quantify the future costs of this scheme as the take-up and the extent of any future work cannot be reliably measured. Costs under the scheme are recognised as incurred.

In January 2015, the trustee of the HAH Group defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustee's actuarial assumptions. LHR Airports Limited agreed an increase to its annual deficit recovery payment from £24 million to £27 million until 2023. In respect of future accrual of benefits LHR Airports Limited will contribute approximately 33% of basic salary and shift pay.

Heathrow Airport Limited has a commitment to pay £87 million in 2018 to the Department for Transport in relation to the Crossrail project in return for a service commitment for Crossrail to operate services to Heathrow for 15 years. It is expected that the amount will be included in the Regulatory Asset Base.

Contingent liabilities

The Company has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £1 million at 31 December 2015 (2014: £1 million).

The Company, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security over their assets to secure their obligations under their financing agreements. Each Obligor has also provided a guarantee of the obligations of the other Obligors.

BAA Pension Trust Company Limited is a Borrower Secured Creditor and has a right to receive up to approximately £284 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

The Company and Heathrow Express Operating Company Limited have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of their liabilities under the Borrower Account Bank Agreement.

22 Ultimate parent undertaking

The immediate parent undertaking of the Company is Heathrow (AH) Limited, a company registered in England and Wales.

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

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2015, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc and Heathrow Airport Holdings Limited for the year ended 31 December 2015.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

23 Transition to FRS 102

These are the Company's second set of financial statements prepared in accordance with FRS 102. The first set of financial statements, prepared in accordance with FRS 102 was non-statutory and issued to the shareholders of the Company. An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position, financial performance and cash flow for the year ended 31 December 2014 and 1 January 2012 (the Company's date of transition) is set out in note 23 of the 2014 non-statutory Financial Statements. The transition to FRS 102 resulted in a £192 million increase to net assets.

In preparing its opening FRS 102 balance sheet as at 1 January 2012 the Company has adjusted amounts previously reported in its statutory annual report and financial statements. An explanation of how the transition to FRS 102 has affected the Company's financial position, financial performance and cash flows has been provided below.

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

23 Transition to FRS 102 ***continued***
Reconciliation of equity

	1 January 2012						
	As previously presented £m	Presentational adjustments £m	FV uplift on operational land £m	Derivatives £m	Preference shares £m	Investment properties deferred tax £m	Under FRS 102 £m
Fixed assets							
Intangible assets	-	54					54
Tangible fixed assets	10,920	(1,747)	360				9,533
Investment properties	-	1,693					1,693
Investment in subsidiary	4						4
Total fixed assets	**10,924**	**-**	**360**	**-**	**-**	**-**	**11,284**
Current assets							
Stocks	6						6
Debtors (including amounts due after more than one year of £1,756m)	2,080			(20)			2,060
Current asset investments	21	(21)					-
Cash and cash equivalents	3	21					24
Total current assets	**2,110**	**-**	**-**	**(20)**	**-**	**-**	**2,090**
Current liabilities							
Creditors: amounts falling due within one year	(1,305)	-		13			(1,292)
Net current assets	**805**	**-**	**-**	**(7)**	**-**	**-**	**798**
Total assets less current liabilities	**11,729**	**-**	**360**	**(7)**	**-**	**-**	**12,082**
Creditors: amounts falling due after more than one year	(9,783)			(351)	(23)		(10,157)
Provisions for liabilities and charges	(233)		(43)	90		(218)	(404)
Net assets	**1,713**	**-**	**317**	**(268)**	**(23)**	**(218)**	**1,521**
Capital and reserves							
Share capital	858						858
Share premium	23				(23)		-
Revaluation reserve	1,099		317			(218)	1,198
Profit and loss reserve	(267)			(268)			(535)
Total shareholder's funds	**1,713**	**-**	**317**	**(268)**	**(23)**	**(218)**	**1,521**

23 Transition to FRS 102 ***continued***
Reconciliation of equity continued

	31 December 2014						
	As previously presented £m	**Presentational adjustments £m**	**FV uplift on operational land £m**	**Derivatives £m**	**Preference shares £m**	**Investment properties £m**	**Under FRS 102 £m**
Fixed assets							
Intangible assets	-	114					114
Tangible fixed assets	13,153	(2,164)	360				11,349
Investment properties	-	2,050				4	2,054
Investment in subsidiary	4						4
Total fixed assets	**13,157**	**-**	**360**	**-**	**-**	**4**	**13,521**
Current assets							
Stocks	10						10
Debtors (including amounts due after more than one year of £1,786m)	2,142	170		(20)			2,292
Current asset investments	238	(238)					-
Cash and cash equivalents	197	68					265
Total current assets	**2,587**	**-**	**-**	**(20)**	**-**	**-**	**2,567**
Current liabilities							
Creditors: amounts falling due within one year	(1,341)	-		21			(1,320)
Net current assets	**1,246**	**-**	**-**	**1**	**-**	**-**	**1,247**
Total assets less current liabilities	**14,403**	**-**	**360**	**1**		**4**	**14,768**
Creditors: amounts falling due after more than one year	(11,574)			(464)	(23)		(12,061)
Provisions for liabilities and charges	(491)		(31)	93		(204)	(633)
Net assets	**2,338**	-	**329**	**(370)**	**(23)**	**(200)**	**2,074**
Capital and reserves							
Share capital	473						473
Revaluation reserve	540	(4)	329			(200)	665
Profit and loss reserve	1,325	4		(370)	(23)		936
Total shareholder's funds	**2,338**	**-**	**329**	**(370)**	**(23)**	**(200)**	**2,074**

Notes to the Company financial statements for the year ended 31 December 2015 *continued*

23 Transition to FRS 102 ***continued***
Reconciliation of profit and loss continued

	Year ended 31 December 2014				
	As previously presented £m	Investment properties £m	Derivatives £m	Employee benefits £m	Under FRS 102 £m
	Note A	Note E, I	Note F, I	Note H	
Turnover	**2,694**				**2,694**
Operating costs	(1,923)	2		14	(1,907)
Other operating items					
Fair value gain on investment properties	-	46			46
Operating profit	**771**	**48**	**-**	**14**	**833**
Analysed as:					
Operating profit before exceptional items	987	48			1,035
Exceptional items	(216)	-		14	(202)
Net interest payable and similar charges					
Interest receivable and similar income	151		2	(12)	141
Interest payable and similar charges	(639)			(2)	(641)
Fair value gain/(loss) on financial instruments	8		(254)		(246)
	(480)	**-**	**(252)**	**(14)**	**(746)**
Profit on ordinary activities before taxation	**291**	**48**	**(252)**	**-**	**87**
Tax on profit on ordinary activities	**(80)**	**(21)**	**50**	**-**	**(51)**
Profit on ordinary activities after taxation	**211**	**27**	**(202)**	**-**	**36**

23 Transition to FRS 102 *continued*

The main transition adjustments were as follows:

a) Operational land

The deemed cost of certain operational land on transition to FRS 102 has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Company occupied assets and included the terminals and airfields. It does not include land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence. This resulted in a one-off valuation uplift in the value of tangible fixed assets of £360 million. The increase in the related deferred tax liability at 1 January 2012 was £43 million and £31 million at 31 December 2014. For deferred tax purposes operational land has been treated as one asset. The deferred tax liability has been calculated as the valuation less the indexed base cost.

b) Presentational adjustments

On transition to FRS 102, the Group has reclassified the following items:

- investment properties – all land and buildings that are owned by but not in use by the Company and are held to earn rentals and/or for capital appreciation are separately classified and therefore not included within the main tangible fixed assets category;
- software – software costs are capitalised as intangible assets and separately classified from tangible fixed assets;
- current asset investments – under FRS 102, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts, when the right to offset exists. Short-term deposits with an original maturity of over three months are shown within debtors due within one year. Balances reported under UK GAAP as current asset investments have therefore been reclassified to cash and cash equivalents and/or term deposits;
- interest accruals – under FRS 102, this is included within borrowings falling due within one year and not separately within creditors under UK GAAP. At 1 January 2012, this resulted in a reclassification of £102 million from creditors to borrowings. The reclassification at 1 January 2014 was £188 million. However, this did not impact the overall Creditors: amounts falling due within one year balance; and
- reserves – the cumulative impact of impairments in investment properties has been transferred to the revaluation reserve.

(b) Financial liabilities

Under UK GAAP, derivatives were held off-balance sheet and accounted for on an accruals basis. The net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship the interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account, respectively. The net interest receivable or payable accrued on derivatives is included in debtors or creditors on the balance sheet. When derivatives are cancelled the swap cancellation costs are recorded in the profit and loss account as incurred.

Where derivatives have been novated to the Company they are transferred at fair value and then held at amortised cost, with premiums payable or receivable amortised over the term of the financial instruments.

As noted above, under the terms of FRS 102.11 and FRS 102.12, the Company has chosen to apply the recognition and measurement provisions of IAS 39, as endorsed by the EU, to account for all of its financial instruments.

On transition to FRS 102, the UK GAAP accounting has been reversed, and both inter-company and external derivatives have been recorded on the balance sheet at fair value. All changes in the fair value of the derivatives are reflected through the profit and loss account. The Company does not apply hedge accounting in relation to any of its derivative financial instruments. At 1 January 2012, this resulted in a decrease in net assets of £358 million before tax. For the year ended 31 December 2012, £57 million of gains before tax was recognised in net interest payable and similar charges, mainly due to fair value movements of financial instruments. For the year ended 31 December 2014, £252 million loss before tax was recognised in net interest payable and similar charges, mainly due to fair value movements of financial instruments. At 31 December 2014, the fair value adjustment for derivatives decreased net assets by £463 million before tax.

(c) Deferred taxation

Under UK GAAP deferred tax is recognised on timing differences arising in the profit and loss account. Timing differences arise from the inclusion of items of income and expenditure in the taxation computations in periods different from those in which they are included in the financial statements.

23 Transition to FRS 102 *continued*

(c) Deferred taxation continued

FRS 102.29 'Income Tax' requires deferred tax to be recognised on timing differences arising in total comprehensive income, which is the sum of the profit or loss account and reserves movements excluding transactions with owners.

On transition to FRS 102, deferred tax was recognised for items that were not required under UK GAAP such as operational land, investment properties and derivatives. The total increase in deferred tax liabilities on transition was £171 million, of which £43 million related to the fair value uplift on operational land, £218 million to investment property revaluation surpluses, offset by £90 million deferred tax asset related to derivatives. For deferred tax purposes operational land has been treated as one asset. The deferred tax liability has been calculated as the valuation less the indexed base cost.

Movements in deferred tax associated with the above adjustments have been reflected both in the profit and loss account and in reserves, and also include the impact of the change in the corporation tax rate from 25% at 1 January 2012 to 23% at 31 December 2012 and to 20% at 31 December 2013.

At 31 December 2014 the total increase in deferred tax liabilities was £142 million, of which £31 million related to the fair value uplift on operational land, £204 million to investment property revaluation surpluses, offset by £93 million deferred tax asset related to derivatives.

(d) Preference shares

Under UK GAAP, on initial recognition the irredeemable preference shares were recognised in reserves with the excess over par value recorded in share premium. The shares were subsequently reclassified to creditors because in substance the shares and the related dividends have terms similar to liabilities and not share capital. Features that indicate that presentation as a liability is appropriate include dividends that are payable for a fixed or determinable amount at a fixed or determinable future date and where redemption is at a predetermined amount and date or at the option of the preference share holder and not at the discretion of the Company. However the share premium was not transferred tocreditors with the par value of the shares. The associated dividend expense is recorded within interest payable in the profit and loss account.

Under FRS 102 and IAS 39, financial instruments are treated as forming part of shareholder's funds only to the extent that they meet the following two conditions:

a) they include no contractual obligations to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

As a result, the preference shares continue to be classified as financial liabilities. On transition to FRS 102, the excess over par value still recorded in the share premium reserve was reclassified to creditors falling due after more than one year. The associated dividend expense continued to be reflected through interest payable in the profit and loss account.

(e) Employee Benefits

Under UK GAAP, the Company recognised its share of the expected return on plan assets and the interest cost relating to the Heathrow Airport Holdings Group defined benefit pension scheme. The interest receivable on the plan assets was recognised based on the long-term expected rates of return on the plan assets. A different rate, the discount rate, was used to unwind the defined benefit obligation.

Under FRS 102.28 'Employee Benefits' a net discount rate is used to unwind the net defined benefit liability.

Following the transition to FRS 102, the lower expected return on assets reduced the pension income that was recognised in interest receivable in the profit and loss account for the year ended 31 December 2012 by £8 million and the amount recognised in exceptional operating costs for pensions fell by £8 million. For the year ended 31 December 2014, the pension income recognised fell by £14 million and the amount recognised in exceptional operating costs for pensions fell by £14 million. There was no change in the balance sheet or cash flow as a result of this change.

(f) Statement of cash flow

The Company's underlying cash position is unaffected by the transition to FRS 102. However, there are a number of presentational and classification differences arising in the cash flows reported under FRS 102.7 'Statement of Cash Flows' where movements in cash and cash equivalents are reconciled. Under UK GAAP current asset investments were classified as management of liquid resources but under FRS 102 they are considered to be part of cash and cash equivalents or term deposits. In addition, only three categories of cash flows are available under FRS 102.

Other disclosures provided under UK GAAP are not required under FRS 102, such as the reconciliation to net debt.

24 Subsequent events

On 25 January 2016, Heathrow Funding Limited raised CHF 400 million of debt through the issue of a bond on the Swiss market. The bond carries a coupon of 0.5100% with an 8 year tenor giving a 2024 maturity. This debt has been swapped into floating Sterling debt and subsequently distributed to the Company under the terms of a BLA.

On 22 February 2016, the Board approved the payment of a £76 million dividend to the Company's parent, Heathrow (AH) Limited. A further £25 million dividend payment was approved on 10 March 2016.

25 Related party transactions

During the year the Company entered into the following transactions with related parties:

	Year ended 31 December 2015 Purchase of goods and services £m	Year ended 31 December 2014 Purchase of goods and services £m
Ferrovial Agroman	**35**	22
Amey Community Limited	**-**	9
HETCo[1]	**48**	106
	83	137

[1] A joint venture between Ferrovial Agroman and Laing O'Rourke.

	Year ended 31 December 2015 Sales to related party £m	Year ended 31 December 2014 Sales to related party £m
Harrods International Limited	**22**	23
Qatar Airways	**31**	25
	53	48

Balances outstanding with related parties were as follows:

	31 December 2015 Amounts owed by related parties £m	31 December 2014 Amounts owed by related parties £m
Qatar Airways	**1**	1

The related parties outlined above are related through ownership by the same parties. The transactions relate primarily to construction projects and aeronautical income which are conducted on an arm's length basis.

The Company enters into transactions with LHR Airports Limited in accordance with the SSA, as described in the Accounting policies note. The amount expensed in the Company's profit and loss account in relation to these charges is shown within Notes 2 and 3.

The Company has taken exemption from disclosure relating to transactions with fellow subsidiaries which are wholly owned subsidiaries of the FGP Topco Limited group.

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Registered in England Number: 01991017