

Heathrow (AH) Limited
Annual report and financial statements
for the year ended 31 December 2014

Heathrow (AH) Limited

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Heathrow (AH) Limited

Officers and professional advisers

Directors

Andrew Efiang
José Leo

Registered office

The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Banker

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

Heathrow (AH) Limited

Strategic and Directors' reports

The Directors present their annual reports and the audited financial statements for Heathrow (AH) Limited (the 'Company') for the year ended 31 December 2014.

Strategic report

The principal activity of the Company is to act as the immediate holding company of Heathrow Airport Limited, which is responsible for operating Heathrow airport ('Heathrow'). The Company acts as an indirect holding company of Heathrow Express Operating Company Limited, which operates the Heathrow Express rail service between Heathrow and Paddington, London.

The Company is a direct subsidiary of Heathrow (SP) Limited and together with the other subsidiaries of Heathrow (SP) Limited forms the group (the 'SP Group') which is able to raise investment grade finance and further forms part of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group').

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

Review of business and future developments

During the year ended 31 December 2014, the Company reversed the impairment in its investment in Heathrow Airport Limited, resulting in an exceptional operating gain of £648 million. The impairment provision was reversed as a result of a favourable change in the economic assumptions in the period since the provision was made. In particular, the valuation of the underlying operation at Heathrow airport has increased significantly as a result of updated passenger forecasts and projections in line with the recently approved Q6 business plan, resulting in a valuation which is significantly higher than when the impairment was originally booked.

In 2014, the Company received dividends totalling £419 million (2013: £360 million) and paid dividends totalling £425 million (2013: £660 million), to its parent company, Heathrow (SP) Limited, comprising quarterly dividends for a total of £285 million and a further £140 million non-recurring dividend in December 2014. The Company also received a dividend of £1 million (2013: £1 million) in respect of the preference shares held in Heathrow Airport Limited.

The statutory results for the year are set out on page 9.

Key performance indicators

Given the nature of the Company's business, the Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of development, performance or position of the Company's operations. Key performance indicators are however an integral part of the strategy for operating Heathrow and are considered to add value to the investment which the Company has in the subsidiary.

Risk management

Risk is centrally managed by the Heathrow Airport Holdings Group. The Executive Committee, Board, Finance Committee and Audit Committee ('AC') referred to below relate to the Executive Committee, Board, Finance Committee and AC of Heathrow Airport Holdings Limited.

The Heathrow Airport Holdings Group's risk management process is used to facilitate the identification, evaluation and effective management of the threats to the achievement of the Heathrow Airport Holdings Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that day-to-day activities are managed effectively and all significant business decisions are risk-informed.

The risk management process is evidenced in risk registers which are used as the basis for regular review of risks and their management, up to Executive Committee level. The risk registers are also used to inform decisions relating to the procurement of insurance cover. The risk management process also supports clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations.

The operation of the risk management process and the individual risk registers are subject to periodic review by the Internal Audit function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

Assurance is provided through the management reporting processes and reports to the AC including to the Sustainability and Operational Risk Committee.

Heathrow (AH) Limited

Strategic and Directors' reports

Risk management *continued*

The principal corporate and reputational risks as identified by the Executive Committee are:

Safety and security

We have 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 our activities. We recognise that a failure to exercise this responsibility effectively also risks operational disruption, inconvenience to passengers and long-term damage to our reputation.

The Heathrow Airport Holdings Group'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 Heathrow Airport Holdings Group's business. The Heathrow Airport Holdings Group 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 Heathrow Airport Holdings Group 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 provide input to the on-going relevance of our 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 Heathrow Airport Holdings Group's ability to secure necessary planning permissions and develop capacity. We undertake extensive consultation with community groups and authorities at a local level and are active participants in government consultations and other advisory groups.

Existing planning approvals provide for passenger traffic to grow to approximately 90 million.

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 processes 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 Heathrow Airport Holdings Group, 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 Heathrow Airport Holdings 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 Heathrow Airport Holdings Group 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.

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Heathrow Airport Holdings Group is recognised. The Heathrow Airport Holdings Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The Heathrow pay agreement reached in early 2014 established the pay structure for 2014 and 2015 - the next round of pay negotiations will again need to reflect the outcome of the most recent economic regulatory review. We could also be exposed to the effect of industrial action involving other key stakeholders in the aviation sector, in the UK and overseas, such as airlines, air traffic controllers, baggage handlers and Border Force.

Heathrow (AH) Limited

Strategic and Directors' reports

Risk management *continued*

Operational resilience continued

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

Corporate social responsibility

We understand the importance to our business of the communities in which we operate, and through consultation and engagement seek to ensure that their concerns are taken into account in the operation and planning of Heathrow.

We undertake procurement responsibly and encourage trade and employment opportunities with the local communities. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established.

Environmental risk has the potential to impact negatively upon the Heathrow Airport Holdings Group'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. We work closely with a range of stakeholders to ensure that we react effectively to the challenges posed by the environmental agenda.

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 Heathrow Airport Holdings Group. Since it is not possible to identify the timing or period of such an effect, the Heathrow Airport Holdings Group 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 Heathrow Airport Holdings Group 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.

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 Heathrow Airport Holdings Group's business operations and funding. To achieve this, the Heathrow Airport Holdings 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 SP Group are:

- (a) Interest rates
The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2014, fixed rate debt after hedging with derivatives represented 97% of the SP Group's total external nominal debt.
- (b) Inflation
The SP 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 SP Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The SP Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

Heathrow (AH) Limited

Strategic and Directors' reports

Risk management *continued*

Financial stability continued

(d) Funding and liquidity

The SP Group has an established investment grade financing platform for Heathrow. This 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 SP Group is not exposed to excessive refinancing risk in any one year.

Heathrow 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 December 2016. As at 31 December 2014, cash and cash equivalents and term deposits were £436 million, undrawn headroom under revolving credit facilities was £1,525 million and undrawn headroom under liquidity facilities was £750 million.

(e) Counterparty credit

The SP 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 SP 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 SP 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



Jose Leo
Director

18 March 2015

Heathrow (AH) Limited

Strategic and Directors' reports continued

Directors' report

Directors

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

Andrew Efiang
José Leo

Company secretary

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

Employment policies

The Company has no employees.

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



José Leo
Director

18 March 2015

Company registration number: 06458657

Heathrow (AH) 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 (United Kingdom Accounting Standards and applicable law). 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 Heathrow 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



José Leo
Director

18 March 2015

Heathrow (AH) Limited

Independent auditor's report to the members of Heathrow (AH) Limited

We have audited the financial statements of Heathrow (AH) Limited for the year ended 31 December 2014 which comprise the Profit and loss account, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 16. 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).

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 2014 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 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.



Andrew J. Kelly FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

1x
March 2015

Heathrow (AH) Limited

Profit and loss account for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Reversal of impairment in investment in subsidiary - exceptional	2	648	-
Operating profit		648	-
Dividends received from subsidiary	3	419	360
Net interest receivable and similar income	4	2	2
Gain on disposal of Stansted Airport Limited	5	3	111
Profit on ordinary activities before taxation		1,072	473
Tax charge on profit on ordinary activities	6	-	-
Profit on ordinary activities after taxation	12	1,072	473

All profits recognised during the current and prior year are from continuing operations.

There is no material difference between historical profits and losses and the Profit and loss account.

There are no recognised gains or losses for the current or preceding financial years other than stated in the Profit and loss account and accordingly no statement of recognised gains and losses is presented.

Heathrow (AH) Limited

Reconciliation of movements in shareholder's funds for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit for the financial year	12	1,072	473
Dividends paid	12	(425)	(660)
Net movement in shareholder's funds		647	(187)
Opening shareholder's funds		4,934	5,121
Closing shareholder's funds		5,581	4,934

Heathrow (AH) Limited

Balance sheet as at 31 December 2014

	Note	31 December 2014 £m	31 December 2013 £m
Fixed assets			
Investment in subsidiary	7	5,584	4,901
Total fixed assets		5,584	4,901
Current assets			
Debtors: amounts due within one year	8	6	47
Cash at bank		1	1
Total current assets		7	48
Current liabilities			
Creditors: amounts falling due within one year	9	(10)	(10)
Net current (liabilities)/assets		(3)	38
Total assets less current liabilities		5,581	4,939
Provisions for liabilities	10	-	(5)
Net assets		5,581	4,934
Capital and reserves			
Called up share capital	11	11	11
Share premium reserve	12	499	499
Profit and loss reserve	12	5,071	4,424
Total shareholder's funds		5,581	4,934

The financial statements of Heathrow (AH) Limited (Company registration number: 06458657) were approved by the Board of Directors on 18 March 2015. They were signed on its behalf by:



José Leo
Director



Andrew Efiog
Director

Heathrow (AH) Limited

Accounting policies for the year ended 31 December 2014

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

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')).

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'), the level at which financial risks are managed for the Company.

Consequently the Directors have reviewed the cash flow projections of the SP Group 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 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 from the balance sheet signing date.

Consolidated financial statements

The Company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of FGP Topco Limited and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2014. The results are also included in the consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2014 (parent entity of the smallest group to consolidate these financial statements) as well as the audited consolidated financial statements of Heathrow Finance plc and Heathrow Airport Holdings Limited for the year ended 31 December 2014.

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

Interest

Interest payable and interest receivable are recognised in the profit and loss account in the period in which they are incurred.

Exceptional items

The Company 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 Company's financial performance.

Investment in subsidiary

Investment in subsidiary is held as fixed assets and is stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable. Reversals are recognised where there is a favourable change in the economic assumptions in the period since the provision was made.

Dividends receivable

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

Debtors

Debtors are recognised initially at cost less any provision for impairment.

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right of offset exists.

Creditors

Creditors are recognised at cost.

Heathrow (AH) Limited

Accounting policies for the year ended 31 December 2014 *continued*

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.

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 reserves. In this case, the tax is also recognised in reserves.

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

In accordance with FRS 19, *Deferred Tax*, 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, at rates expected to apply when they crystallise based on current tax rates and law. 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 is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

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.

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.

Share capital

Ordinary shares are classified as equity and are recorded at the fair 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.

Cash flow statement and related party transactions

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 2014. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2014 (parent entity of the smallest group to consolidate these financial statements) as well as the audited consolidated financial statements of Heathrow Finance plc and Heathrow Airport Holdings Limited for the year ended 31 December 2014. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1, *Cash flow statements (revised 1996)*.

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are wholly owned subsidiaries of the FGP Topco Limited group.

Heathrow (AH) Limited

Significant accounting judgements and estimates for the year ended 31 December 2014

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

Investment valuation

The Company reviews investment in subsidiaries for impairment, or reversal of previous impairments, if there are any indications that the carrying values may not be recoverable or may have increased as a result of a favourable change in economic assumptions. The carrying value of the investment is compared to the recoverable amount of the subsidiary and where a deficiency exists, an impairment charge is considered by management or reversal of previous impairments where a surplus exists. The recoverable amount has been calculated using the fair value less cost to sell methodology. Fair value less cost to sell has been calculated based on discounted cash flow projections of the business.

Heathrow (AH) Limited

Notes to the financial statements for the year ended 31 December 2014

1 Operating costs

Auditor's remuneration

Audit fees are recharged in accordance with the SSA into the Heathrow Airport Holdings Group's operating entities. Heathrow (AH) Limited is not an operating entity and is therefore not party to the SSAs and receives no recharge of the audit cost. However, the Company's auditors received £3,000 (2013: £4,000) as remuneration for the audit of the Company's financial statements, the cost of which is borne by Heathrow Airport Limited.

Employee information

The Company has no employees (2013: none).

Directors' remuneration

José Leo was a director of a number of companies within the Heathrow Airport Holdings Group during the year. His remuneration for the year ended 31 December 2014 was apportioned based on services provided to Heathrow Airport Holdings Limited and is disclosed within its financial statements. Andrew Efiang was a director of a number of companies within the Heathrow Airport Holdings Group. He was paid by, but is not a director of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion his remuneration to other individual companies within the Heathrow Airport Holdings Group based on services provided.

During the year, none of the directors (2013: none) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2013: one) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2013: none) exercised any share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2013: none) were received or became receivable under long term incentive plans.

2 Reversal of impairment in investment in subsidiary – exceptional

An exceptional operating gain of £648 million was recognised in the year ended 31 December 2014 (2013: £nil million) as a result of the reversal of the impairment of the Company's investment in its subsidiary, Heathrow Airport Limited (Note 7).

3 Dividends received from subsidiary

During the year, £419 million of dividends were received from the Company's subsidiary, Heathrow Airport Limited (2013: £360 million).

The dividends received during the year are treated as non-taxable income for corporation tax purposes.

4 Net interest receivable and similar income

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Interest receivable		
Interest receivable from group undertakings ¹	1	1
Dividend receivable ²	1	1
Net interest receivable and similar income	2	2

¹ These amounts relate to interest accrued on the loan to Heathrow Airport Limited at a rate of 7.57%.

² Dividend receivable on irredeemable preference shares of £0.01 each from Heathrow Airport Limited: 4.55p per share (2013: 4.55p per share). Dividend based on one year sterling LIBOR plus a dividend rate premium of 3.52%.

5 Gain on disposal of Stansted Airport Limited

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Gain on disposal of Stansted Airport Limited	3	111

In the year ended 31 December 2014, the £3 million gain represents the release of a provision no longer required. For the year ended 31 December 2013, the gain represents proceeds of sale of the investment in Stansted Airport Limited on 28 February 2013 less the carrying value of investment and disposal costs related to legal fees and other separation costs.

Heathrow (AH) Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

6 Tax charge on profit on ordinary activities

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 21.5% (2013: 23.25%). The actual tax charge for the current year and prior period differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2014	Year ended 31 December 2013
	£m	£m
Profit on ordinary activities before tax	1,072	473
Tax calculated at the UK statutory rate of 21.5% (2013: 23.25%)	(230)	(110)
Effect of:		
Permanent differences	139	26
Non taxable income	91	84
Tax charge on profit on ordinary activities	-	-

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. These changes have been reflected above. Other than these changes, there are no items which would materially affect the future tax charge.

7 Investment in subsidiary

	£m
Cost	
1 January 2014	5,549
Addition: capital contribution ¹	35
31 December 2014	5,584
Impairment	
1 January 2014	(648)
Reversal of impairment (Note 2)	648
31 December 2014	-
Net book value 31 December 2014	5,584
Net book value 31 December 2013	4,901

¹ The capital contribution of £35 million (Note 8¹) relates to a loan receivable from Heathrow Airport Limited which has been forgiven following the proceeds of sale of Stansted Airport Limited.

The Company's principal subsidiary as at 31 December 2014 is as follows:

Subsidiary	Nature of Business	% of share capital held	Class of share
Heathrow Airport Limited	Airport operator	100	Ordinary shares of £0.30 each
		100	Redeemable preference shares of £1 each
		100	Irredeemable preference shares of £0.01 each

The Company's indirect subsidiary is as follows:

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

The Company owns all of the £1 redeemable preference shares issued by Heathrow Airport Limited. These shares carry an entitlement to an annual dividend fixed by reference to the prospective real redemption rate, based on a projected inflation rate of 3%, on 2.5% index-linked 2016 UK gilts, uplifted for movements in the Retail Prices Index ('RPI').

The preference shares of £1 each are redeemable by the subsidiary on 16 January 2016 at £1.37 per share, uplifted for movements in the RPI. On a return of capital on winding up or capital reduction, the holders of the 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 other than the holders of irredeemable preference shares.

The Company also owns all of the £0.01 irredeemable preference shares issued by Heathrow Airport Limited. These shares carry an entitlement to an annual dividend uplifted by reference to the RPI.

Heathrow (AH) Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

7 Investments in subsidiaries *continued*

The impairment provision in respect of the Company's investment in its subsidiary has been reversed in the year ended 31 December 2014 as a result of a favourable change in the economic assumptions in the period since the provision was made, which has increased the equity value of the subsidiary. In particular, the valuation of the underlying operation at Heathrow airport has increased significantly as a result of updated passenger forecasts and projections in line with the recently approved Q6 business plan, resulting in a valuation which is significantly higher than when the impairment was originally booked.

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

8 Debtors: amounts due within one year

	31 December 2014	31 December 2013
	£m	£m
Amounts owed by group undertakings – interest free ¹	-	39
Amounts owed by group undertakings – interest bearing ²	6	6
Interest receivable from group undertakings	-	2
	6	47

¹ Amounts owed by group undertakings – interest free relates to loans to Heathrow Airport Limited of £nil (2013: £35 million) and LHR Airports Limited of £nil (2013: £4 million).

² Amounts owed by group undertakings - interest bearing relates to a loan to Heathrow Airport Limited which bears an interest rate of 7.57% per annum as at 31 December 2014 (2013: 7.57%).

9 Creditors: amounts falling due within one year

	31 December 2014	31 December 2013
	£m	£m
Amounts owed to group undertakings – interest free ¹	10	10

¹ Amounts owed to group undertakings - interest free are owed to Heathrow Airport Limited and are repayable on demand.

10 Provisions for liabilities

	£m
1 January 2014	5
Released to profit and loss account	(3)
Utilised in the year	(2)
31 December 2014	-

The provision related to costs associated with the disposal of Stansted airport.

11 Share capital

	£
Called up, allotted and fully paid	
In issue at 1 January and 31 December 2014: 7,373,555,178 ordinary shares of £0.0015 each	11,060,333

12 Reserves

	Share premium reserve	Profit and loss reserve	Total
	£m	£m	£m
1 January 2014	499	4,424	4,923
Profit for the financial year	-	1,072	1,072
Dividends paid ¹	-	(425)	(425)
31 December 2014	499	5,071	5,570

¹ During the year ended 31 December 2014, the Company paid dividends of £425 million to Heathrow (SP) Limited being £65 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 19 December 2014.

Heathrow (AH) Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

13 Contingent liabilities

The Company, together with Heathrow Airport Limited, Heathrow Express Operating Company Limited and Heathrow (SP) 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 in respect 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.

14 Ultimate parent undertaking

The immediate parent undertaking is Heathrow (SP) 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 2014, 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, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2014.

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.

15 Post balance sheet date events

On 26 February 2015, the board approved the payment of a £32 million dividend to the Company's parent, Heathrow (SP) Limited. This was financed by the receipt of a dividend payment from the Company's subsidiary, Heathrow Airport Limited of £32 million.

On 4 March 2015, the board approved the payment of a £80 million dividend to the Company's parent, Heathrow (SP) Limited. This was financed by the receipt of a dividend payment from the Company's subsidiary, Heathrow Airport Limited of £80 million.