Heathrow Airport Limited
Annual report and financial statements for the year ended 31 December 2018

Company registration number: 01991017

Heathrow Airport Limited

Contents

Heathrow Airport Limited

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Heathrow Airport Limited

Strategic report

Heathrow Airport Limited (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 'the Group/HAH Group') and also with the Heathrow (SP) Limited 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'). The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

This Strategic report is presented in five sections:

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

Management review – overview of the year ended 31 December 2018, along with an outlook for 2019;

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2018 and analysis of the financial position of the Group as at that date. The Group'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 HAH Group's internal controls, approach to risk management, sources of assurance and some of the key business risks identified by the HAH Group Executive Committee and Board.

Business overview

Heathrow's business model

Heathrow is one of the best-connected hub airports in the world, with 84 global airlines operating regular scheduled flights to 203 destinations. Heathrow is the primary airport in London, which is the world's largest origin and destination aviation market with over 150 million passengers travelling to and from London annually. With 80.1 million passengers in 2018, Heathrow is Europe's busiest airport and the world's seventh busiest airport.

Heathrow provides service to a range of market segments, including business and leisure travellers, direct and transfer passengers and long and short-haul routes, operated by a diversified range of major airlines. As well as earning income from services to airlines, Heathrow also generates revenue from a variety of other sources, including concession fees from retail operators, income from car parks, advertising revenue, the rental of airport premises, the provision of facilities and services and the Heathrow Express rail service.

Heathrow has maintained a strong focus over recent years on operational performance, improving the passenger experience and investing in new and upgraded facilities. This focus and investment has resulted in Heathrow being named 'Best Airport in Western Europe' by Skytrax for the fourth consecutive year in 2018, as well the 'World's Top Airport Terminal' for Terminal 2, and 'World's Best Airport Shopping' for the ninth consecutive year.

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 Economic regulation provides significant cash flow predictability within each regulatory period, which usually last five years.

Heathrow's 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. Heathrow's vision is to give passengers the best airport service in the world, and is underpinned by four strategic priorities:

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

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

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.

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

Business overview continued

Heathrow's Infrastructure

The Group has invested almost £11 billion transforming Heathrow's infrastructure over the last decade including £793 million invested in 2018 alone (2017: £687 million).

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 2018 it operated at 98.5% (2017: 98.8%) of this limit.

Terminals

Each of Heathrow's four operational terminals is either new or recently refurbished. The busiest terminals are Terminal 2 and 5. Terminal 2, which opened in June 2014, handled 18.5 million passengers in 2018 (2017: 17.8 million) and Terminal 5 handled 32.8 million passengers in 2018 (2017: 32.3 million). Heathrow airport's terminal capacity is currently estimated to be 85 million passengers per year.

Baggage systems

Significant investment has been made in Heathrow's baggage infrastructure including the underground automated baggage system between Terminal 3 and Terminal 5 and the Terminal 3 integrated baggage system which became fully operational in April 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 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.

Expansion of Heathrow – sustainable growth

Heathrow has been operating close to its permitted limit on annual aircraft movements for several years and is the busiest airport in the world with two or fewer runways. As a result, for a significant period, Management has been considering how to deliver sustainable growth and increased airport capacity in a way which delivers greater benefits as the country's only Hub airport, whilst mitigating the adverse impacts of expansion, particularly on local communities. The UK Parliament voted overwhelmingly in favour of the Airport's National Policy Statement ('NPS') in June 2018 and Heathrow has made significant progress on plans to deliver the sustainable growth under the terms of the NPS. A more detailed update is included in the Management review section of this Strategic report.

Heathrow's 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 Economic regulation sees the CAA setting the maximum level of airport charges for Heathrow, generally for five-year regulatory periods, using a per passenger 'price cap' mechanism ("RPI +/- X") which incorporates an allowed return on the Regulatory Asset Base ('RAB'). For the current regulatory period, this mechanism means the maximum allowable yield per passenger changes from 1 January each year by RPI minus 1.5% (RPI as at prior year April.). The building blocks of this "Single Till" calculation are shown below. The CAA first determines the regulated 'revenue requirement'. This is calculated as the sum of forecast operating expenditure less non-aeronautical 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 the resulting revenue requirement divided by forecast passenger numbers produces the per passenger maximum allowable yield.

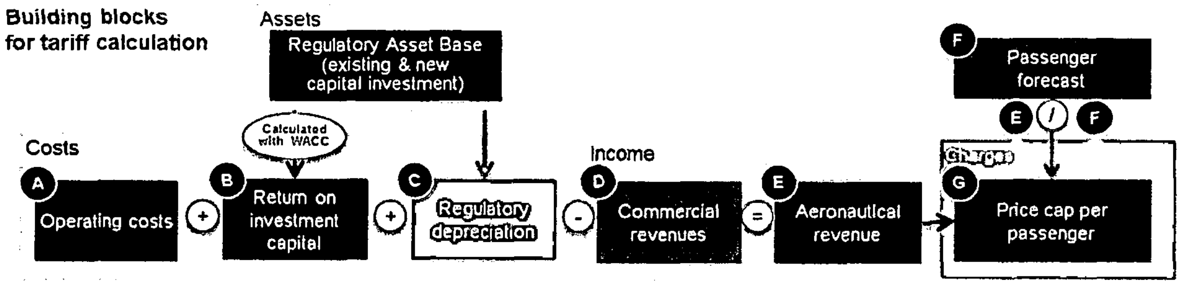
Heathrow's current regulatory period ('Q6') initially ran from 1 April 2014 to 31 December 2018 and was subsequently extended to 31 December 2019 under the same price control. Further information on the regulatory environment beyond 2019 is included in the Management review section of the Strategic report.

Heathrow's regulation is consistent with the economic regulation of other UK regulated industries (such as telecoms and the energy sector). This form of economic regulation is sometimes referred to as 'incentive regulation', in that Heathrow has an incentive to outperform the economic settlement by attracting more passengers, reducing operating costs or delivering higher commercial revenues. In the opposite case, Heathrow must absorb negative financial impact, with no adjustment for shortfalls in passenger numbers or additional costs unless agreed with the CAA, such as where Heathrow incurs additional security costs above an established threshold when implementing new security directives imposed by the EU or the UK Government. There is a mechanism (the 'K' factor) designed to correct for any under recovery (dilution) or over recovery (concentration) in charges compared to the maximum allowable yield, which may arise due to changes in passenger mix or load factors compared to those forecast at the time of price setting the during the prior year.

Heathrow Airport Limited

Strategic report *continued*

Business overview *continued*
Heathrow's regulatory environment *continued*



Heathrow's 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, and *non-aeronautical income* from all other sources.

Aeronautical income
Aeronautical income reflects the fees charged by Heathrow to the airport's airline customers. These charges cannot exceed the regulated maximum allowable yield per passenger. The tariff structure can vary in consultation with stakeholders, but includes three key elements:

Passenger charges, based on the number of passengers per aircraft and levied in respect of all departing passengers. There is no charge in respect of crew members. Charges vary by route area: European, domestic and rest-of-world.

Landing charges, levied for substantially all aircraft (with certain diplomatic and other flights being exempted). These are calculated in accordance with the certified maximum take-off weight and adjusted, where applicable, in accordance with each aircraft's noise-rating, emissions, and the time of day.

Parking charges, levied for each 15-minute slot after 30 and 90 minutes (narrow and wide-bodied aircraft respectively).

Non-aeronautical income
Non-aeronautical income is generated from a variety of sources. These include concession fees from retail operators, direct income from car parks, advertising revenue, VIP products, the rental of airport premises such as aircraft hangars, warehouses, cargo storage facilities, maintenance facilities, offices and airline lounges, the provision of facilities such as baggage handling and passenger check-in and fare revenue from the Heathrow Express rail service.

Alternative Performance Indicators (APMs)
Heathrow uses many performance indicators and metrics across the business to monitor and drive improvements in safety, efficiency and passenger experience. These are aligned to the four strategic objectives outlined in the Business overview (page 2). The indicators are set primarily at the beginning of a Regulatory period so that performance can be reliably and consistently tracked against the Regulatory settlement, and many have been tracked consistently across several regulatory periods. Most of the indicators and metrics used and disclosed in this report are also used widely across the Airport industry and so enable management and stakeholders to compare Heathrow performance against other similar airports.

A number of financial measures are included which have been categorised as Alternative Performance Measures (APMs) as per the European Securities and Markets Authority (ESMA) guidelines on use of non-GAAP Financial Measures. An APM in this report is a financial measure other than a measure defined under IFRS, used by Heathrow management when these measures provide stakeholders with useful and appropriate information. The Group uses such measures to measure operating performance and liquidity, in presentations to the Board and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of its operating cash flow and liquidity. The Directors believe that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The APMs may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS. An explanation of the relevance of each of the non-GAAP measures, a reconciliation of the non-GAAP measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below. The Group does not regard these non-GAAP measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS.

Strategic report *continued*

Business overview *continued*

Alternative Performance Indicators (APMs) *continued*

Primary financial statement format

The primary financial statements are prepared in accordance with FRS 102, as it applies to the Company financial statements for the year ended 31 December 2018, as per Section 301(A) under FRS 102.

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column. This column includes certain re-measurements as listed in (i) and (ii) below, which management separates from the underlying operations of the Company. Also, this column includes exceptional items as listed in (iii) and the effect on taxation of changes in tax rates in (iv) and (v) below. By isolating certain re-measurements and exceptional items, management believes the underlying results provides the reader with a more meaningful understanding of the performance of the Company, by concentrating on the matters over which it exerts influence, whilst recognising that information on these additional items is available within the financial statements, should the reader wish to refer to them.

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

The Company has defined the following financial measures as APMs derived from FRS 102:

APM	Definition and use
EBITDA	*Earnings before interest, taxes, depreciation and amortisation* Used as a metric to track the operational performance of Heathrow including Revenue and Operating Costs before depreciation and amortisation. The Company presents EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortisation expense) EBITDA for the year-ended 31 December 2018 was £1,909 million (2017: £1,901 million).
Adjusted EBITDA	*Adjusted Earnings before interest, taxes, depreciation, amortisation and certain re-measurements* Management uses Adjusted EBITDA to monitor performance of our segments and is therefore the measure of segment profit that the Company presents under FRS 102. Management believes that Adjusted EBITDA should therefore, be made available to securities analysts, investors and other interested parties to assist in their assessment of the trading performance of our business. Adjusted EBITDA is calculated by excluding certain remeasurements from EBITDA, namely the fair value movements on Investment properties which are mainly market driven and over which Management has little influence. Adjusted EBITDA for the year-ended 31 December 2018 was £1,792 million (2017: £1,752 million).
Adjusted operating profit	Adjusted Operating Profit is Profit before Finance costs and tax and certain re-measurements, namely the fair value movements on Investment properties. The reconciliation to FRS 102 is shown on the face of the Income statement. Adjusted operating profit for the year-ended 31 December 2018 was £1,050 million (2017: £1,061 million)
Adjusted profit before tax	Adjusted Profit before tax is Profit before tax and certain re-measurements, namely the fair value movements on Investment properties and the fair value movements on financial instruments. The reconciliation to FRS 102 is shown on the face of the Income statement. Adjusted profit before tax for the year-ended 31 December 2018 was £583 million (2017: £507 million).
Adjusted profit after tax	Adjusted Profit after tax is Profit before certain re-measurements, namely the fair value movements on Investment properties and the fair value movements on financial instruments and related tax charges or credits. The reconciliation to FRS 102 is shown on the face of the Income statement. Adjusted profit after tax for the year-ended 31 December 2018 was £435 million (2017: £388 million)

Heathrow Airport Limited

Strategic report *continued*

Alternative Performance Indicators (APMs) *continued*

The Company has defined the following financial measures as APMs derived from FRS 102 *continued*

Underlying net Finance costs	Underlying net finance costs are adjusted for capitalised borrowing costs. Management believes underlying net finance costs provide a year on year comparison of financing costs before accounting adjustments. The reconciliation from total finance costs to total finance costs before certain re-measurements is shown on the face of the Income statement. Underlying net Finance costs for the year-ended 31 December 2018 were £517 million (2017: £600 million) after adding back capitalised borrowing costs of £50 million (2017: £46 million).
Retail income per passenger	*Total Retail income divided by (unrounded) total number of departing and arriving passengers* A widely used indicator for Airport commercial activities, used by management to drive lower the amount of required income needed through aeronautical charges.

Regulatory performance measures

These regulatory performance measures are used to monitor progress against our regulatory settlements and other strategic objectives. As the regulatory performance measures are directly related and specifically defined within our Economic regulation, it would not make sense to use FRS 102 measures to track against our regulatory settlement.

RAB	*Regulatory Asset Base* The regulated asset base is used in the Economic regulation pricing formula. It is a regulatory construct representing the invested capital on which Heathrow will earn a return. By investing efficiently in the Airport in consultation with our stakeholders, we add to the RAB over time. The RAB is reconciled to GAAP Fixed Assets in the separately published Regulatory Accounts. It is used in key financial ratios and the Regulatory accounts. The RAB at 31 December 2018 was £16,200 million (2017: £15,786 million).
Gearing and Regulatory Asset Ratios	*Gearing ratios* Under the Company's financing agreements, gearing ratios are calculated by dividing nominal net debt by RAB. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders, benefits to other stakeholders, and to maintain an optimal capital structure. Amongst other methods, the Company monitors its capital using its gearing ratios. Like other regulated industries in the UK, gearing is referenced by the ratio of nominal net debt to the RAB. *Regulatory Asset Ratio (RAR)* A trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 90.0% until Heathrow Finance 2019 Notes either mature, are repaid or consent is obtained to change covenant level from when covenant moves to 92.5%.

Non-financial performance indicators

	Definition
ATM	*Air Transport Movement* Commercial flights including schedules, used as a metric to track the operational performance of the Heathrow including schedules, charter and cargo, but excluding empty position movements or private aircraft. Passenger ATMs exclude cargo flights.
ASQ	*Airport Service Quality* An independent quarterly survey-based rating of Airports, administered by the Airports Council International. The score ranges from 1 to 5.
Baggage Connection	*Percentage of connecting bags which travel with their passenger* Shown either as a % or as number of bags per 1,000.
Departure punctuality	*Percentage of flights departing within 15 minutes of scheduled departure time.*
Security Queuing	*Percentage of departing passengers passing through security within a five minutes period* This is prescribed under the CAA Service Quality Rebate Scheme to identify certain service standards that passengers should expect from Heathrow.

Management review

Review of the year
We continued to deliver strong performance in 2018 and welcomed a record 80 million passengers travelling through the UK's only hub airport, up 2.7% on last year. We are one of only seven airports in the world to have exceeded 80 million passengers in a single year, and the only airport to achieve this milestone with only 2 runways. Whilst continuing to deliver growth, we also sustained our high customer satisfaction scores and were named 'Best Airport in Western Europe' for the fourth year running, and 'Best Airport for Shopping' for the ninth year running in the most recent Skytrax World Airport Awards.

We also progressed the four strategic priorities underpinning our vision to give our passengers the Best Airport Service in the World; making Heathrow a great place to work, transforming our service to passengers and airlines, beating the business plan over the current regulatory period and operating and growing Heathrow sustainably today and in the future.

Critical to the success of our vision is attracting, retaining and developing high quality talent. This is why making Heathrow a great place to work and creating careers where people can fulfil their potential is at the very heart of our strategy. In 2018 an outstanding 472 colleagues were promoted and 755 colleagues attended training to advance their managerial skills.

We delivered outstanding service to our passengers during our busiest year ever. We achieved an excellent 4.15 out of 5.0 score in the global Airport Service Quality (ASQ) survey in 2018 as well as maintaining our high levels of successful baggage connections and departures punctuality. In addition, reflecting the success of our pricing strategy to boost domestic connectivity, short haul traffic grew by 2.2% and intercontinental by 3.1%. Intercontinental growth continued to be driven by routes to North America through increased flight frequency and aircraft size, while passenger numbers to-and-from the Asia Pacific region also grew strongly driven by our new Chinese routes.

As part of our Heathrow 2.0 plan for sustainable growth, we released our Carbon Neutral Growth Roadmap, setting out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral. We also launched our Living Wage Roadmap, showing how we will ensure that our supply chain will guarantee their employees the Living Wage. Building on Heathrow achieving Living Wage accreditation in 2017, the Roadmap sets ambitious goals for 100% of target contracts to be amended by the end of 2020.

Despite continuing to invest in winter resilience, special passenger assistance, security and expansion, we have continued to deliver declining costs per passenger. On the revenue side, aeronautical revenues grew by 1.7% compared with 2017 despite delivering a 1% reduction in aeronautical revenue per passenger. Retail revenues grew by 8.6% as passengers responded strongly to several successful retail initiatives. We saw more passengers participating in our retail offering with each spending more. As a result of these dynamics, total revenues were almost £3 billion, up 3% on 2017. We raised close to £2.3 billion of debt financing globally in 2018, further strengthening our liquidity position and providing additional duration and diversification to our £14 billion debt.

2018 also saw the commencement of our plans to deliver expansion following the UK Parliament passing the airports National Policy Statement in June by a substantial majority.

We continue engaging with our regulator and airline stakeholders to define the regulatory framework that will enable expansion that is affordable, sustainable and financeable. Following the launch of our initial planning consultation in January 2018, we also launched a consultation on airspace changes in January 2019 and are making final preparations for the statutory consultation on our masterplan for expansion in mid-2019. These consultations provide an opportunity for our local community and other stakeholders to help us shape Heathrow's future.

Key business developments
Mojo
We are committed to making Heathrow a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. We continue to enhance our leadership capabilities and provide great career opportunities supported by some of the best development and training. In 2018, 472 colleagues were promoted and 755 colleagues attended training to advance their managerial skills.

We take a pragmatic and proactive approach to improving our Health and Safety credentials through engaging our colleagues. We have seen a positive shift in our culture and behaviours which remains a significant driver in achieving great results and preventing or reducing the likelihood of incidents occurring. In 2018, our lost time injuries metric improved to 0.33 (2017: 0.48).

Transform customer service
In 2018, we continued to deliver strong levels of service across the passenger journey. Over the period, average service standards reduced slightly compared to 2017 as a result of one of the worst winters in recent years and strong passenger growth putting pressure on some key processes such as check-in, security, immigration and baggage. Despite this, our service standards remained high throughout the year, with limited or no disruption to our operations.

Management review *continued*
Key business developments *continued*
Transform customer service *continued*
In 2018, we achieved an ASQ score of 4.15 (2017: 4.16) out of 5.00 compared to 3.97 just five years ago. In addition, 81.9% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2017: 82.5%) illustrating the strength and resilience of our operations. As part of our drive to provide the best airport service in the world, we introduced our 'Service Signatures' programme highlighting a set of behaviours that help guide the way in which we all deliver an even better service to our passengers, customers and colleagues.

Key service standard performance indicators [1]	2018	2017
ASQ[2]	**4.15**	4.16
Baggage connection[2]	**98.8%**	99.0%
Departure punctuality[2]	**77.6%**	80.2%
Security queuing[2]	**96.8%**	97.3%

[1] For the twelve months ended 31 December 2018
[2] Airport service quality (ASQ), percentage of connecting bags travelling with the passenger (Baggage connection), percentage of flights departing within 15 minutes of schedule (Departure punctuality) and percentage of passengers passing through central security within five-minute period (Security queuing)

Investing in Heathrow
We invested £666 million in 2018 (2017: £604 million) on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continue to develop our plans for expanding Heathrow for which investment amounted to an additional £127 million in the year (2017: £80 million).

Safety continued to be the priority for Heathrow and 2018 was the busiest and safest year in the quinquennium for our capital investment teams working across the airport, with the best ever performance on Safe Days (no. of days without a lost-time incident), peaking at 148 (2017: 112).

The next stage of Passenger Flow Monitoring went live, continuing the focus on passenger experience improvements by enabling the Airport Operations Centre to monitor passenger numbers and flow, predict congestion in key areas and direct resources in the most efficient and effective way possible. The roll out of self-service bag drop facilities maintained its momentum with 48 units going live in Terminals 5 alone.

We completed a significant project to install Oyster card electronic passenger gates at the Heathrow terminals of Heathrow Express enabling easier transfer for our passengers to-and-from London, and have received all relevant approvals to install the gates at Paddington during 2019.

The Hold Baggage Screening (HBS) upgrade works progressed well in 2018. Terminal 2 was certified as Standard 3 Department for Transport (DfT) compliant and Terminal 5 met the DfT target of 83% screened at Standard 3 by September 2018. The Terminal 5 programme remains on plan for the target of 100% screening at Standard 3 by April 2019.

Beat the plan

New intercontinental routes
We added 6 new direct routes to growth cities in China, doubling the number of connections from Heathrow, the UK's only hub and primary gateway airport to China. New routes were also announced to North America, with British Airways adding a new direct route to Pittsburgh and American Airways a new route to Phoenix, both commencing in April 2019.

Record passenger traffic
During 2018, we welcomed a record 80.1 million passengers, an increase of 2.7% on 2017 (2017: 78.0 million). December 2018 was the 26th consecutive month of record passenger numbers. Aircraft continue to fly fuller, with load factors increasing to 79.4% (2017: 78.0%). The average number of seats per passenger aircraft increased to 213.4 (2017: 212.3) driven by aircraft upgrades on European and Middle Eastern routes.

Reflecting the success of our pricing strategy to boost domestic connectivity, short haul traffic grew by 2.2% and intercontinental by 3.1%. Intercontinental growth continued to be driven by routes to North America through increased flight frequency and aircraft size, while passenger numbers to-and-from the Asia Pacific region also grew strongly driven by our new Chinese routes and increased frequencies to India.

***Beat the plan** continued*

Record passenger traffic *continued*

Passengers (Millions)	2018	2017	Var %[1]
UK	**4.8**	4.8	(0.1)
Europe	**33.3**	32.4	2.6
North America	**18.1**	17.4	4.3
Asia Pacific	**11.5**	11.3	2.4
Middle East	**7.7**	7.6	0.5
Africa	**3.3**	3.2	5.3
Latin America	**1.4**	1.3	4.4
Total passengers[2]	**80.1**	78.0	2.7

Key traffic performance indicators	2018	2017	Var %
Passenger ATM[1]	**472,744**	471,082	0.4
Load factors (%)[2]	**79.4**	78.0	1.8
Seats per ATM	**213.4**	212.3	0.5
Cargo tonnage ('000)	**1,685**	1,698	(0.8)

[1] Calculated using unrounded passenger figures

[2] Passenger air traffic movements (ATM) includes commercial flights including scheduled, chartered and cargo and excluding positioning and private flights. Load factor is a percentage of seats filled by passengers.

Sustainable growth

Heathrow 2.0

As part of our Heathrow 2.0 plan for sustainable growth we released our Carbon Neutral Growth Roadmap in November 2018. This set out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral. The Roadmap outlines four key action areas including cleaner aircraft technology, improvements to airspace and ground operations, sustainable aviation fuels, and carbon offsetting methods. As an important step towards encouraging the development of commercial electric technology, in October we announced that the first electric-hybrid aircraft to be put into regular service at Heathrow will not have to pay landing charges for a year, a prize worth nearly £1 million.

2018 was a busy year for our charity partnerships as we launched a new partnership with CARE International UK. Through colleague and passenger fundraising, we are supporting CARE's 'Lend with care' programme which enables donors to make loans to entrepreneurs in developing countries, helping them to build a business and to lift themselves and their families out of poverty. We also ran our third 'Race the Plane' event, with funds raised benefitting the Duke of Edinburgh's Award Scheme and the Heathrow Community Fund. Over 400 cyclists raced a United Airlines flight form Heathrow to New York, with the teams working together to complete 30-minute sessions on stationary bikes outside Terminal 2. The teams managed to beat the plane, raising over £100,000 in the process.

In November we held the annual flagship Heathrow Business Summit, welcoming over 250 local small and medium enterprises (SMEs) to discuss contract opportunities with our business partners, as well as to gain insight on how businesses can export their products through Heathrow. We also progressed toward our commitment to open four Logistics Hubs across the UK to support delivery of Heathrow expansion, with airport delegates visiting all 65 interested sites on the longlist. The shortlist will be announced in Spring 2019.

We also launched our Living Wage Roadmap, which shows how we will ensure that our supply chain will guarantee their employees the Living Wage. Building on Heathrow achieving Living Wage accreditation in 2017, the Roadmap sets ambitious goals for 100% of target contracts to be amended by the end of 2020.

Throughout 2018, we have been considering how we can best engage our passengers with our sustainability strategy. Building on some detailed research carried out at the start of the year, in November we launched a campaign to highlight some of our key areas of focus and the actions passengers can take to contribute. For example, we have raised awareness that passengers can bring their own water bottles with them when they travel through Heathrow as we provide free refill points after security, helping to reduce single-use plastic bottles. We've partnered with 'Refill' to ensure directions to all refill points at the airport are included on their free-to-use smart phone app.

Task force for climate related financial disclosures (TCFD)
We take seriously our responsibility to help develop a transparent, consistent and effective system for climate related financial disclosures. We already publish substantial quantities of information in publicly available sustainability reports, including in our Climate Change Adaption report, in annual Sustainability Progress reports, and in our Carbon Footprint reporting. We will expand and improve our climate related disclosures within our Annual Report and financial statements in 2019 and beyond to ensure Heathrow provides clear and useful disclosures relevant to the lifespan of an Expanded Heathrow.

Key Expansion developments
We continue to make significant progress in expanding the airport following the overwhelming vote in Parliament in favour of the Airports National Policy Statement ('NPS') in June 2018. Initial ground surveys at 650 sites across the land required for the project have been completed and the airport is moving towards confirming its preferred masterplan. We have incorporated feedback from a successful initial public consultation at the start of 2018 and will hold two consultations in 2019 to seek further views on the plans. The first of those consultations on airspace and future runway operations is open until 4th March 2019 and will be followed by a consultation in June 2019 which will detail our preferred masterplan. The announcement of these consultations comes as the latest independent polling from Populus released in September 2018 continued to show that more local residents around Heathrow support than oppose Heathrow Expansion, a result which has been consistent since polling started in 2015. After reviewing and assessing feedback from the two consultations in 2019, we will prepare a final masterplan and submit a development consent order application to the Secretary of State in 2020, commencing a consenting process which will take a fixed period of 18 months. If Heathrow is granted development consent, the new runway is expected to open in 2026.

We are continuing strong engagement with businesses across the UK. We hosted 10 regional Business Summits in 2018 at various locations across the UK. These summits help to increase the number of SMEs in the airport's multi-billion-pound supply chain. We also launched an Innovation Partnership program inviting innovative ideas to help deliver the expansion plans more affordably and sustainably. After reviewing over 150 submissions we have announced a shortlist of 37 from varying contributors including local authorities, retail businesses and airline partners, which are now being developed into business cases for final consideration.

We remain committed to delivering a sustainable, affordable and financeable expanded airport. Heathrow's expansion programme will be entirely privately funded at no cost to the taxpayer. We are also committed to maintaining existing strong investment grade credit ratings throughout the period of expansion. We are confident that we can expand the airport whilst keeping passenger charges close to 2016 levels, representing value for money for consumers and meeting the Government's affordability challenge. Our proposals to expand Heathrow intend to unlock billions of pounds in Economic growth for the UK, create tens of thousands of new skilled jobs across the regions, meet tough environmental and noise limits, open up to 40 new long-haul trading links, improve domestic connectivity and secure a skills legacy for future generations. Over the next 12 months alone, we expect to sign around £150 million worth of contracts with British businesses, creating up to 900 new jobs and 200 new apprenticeships.

In parallel with the ongoing development consent process outlined above, we will continue to participate in the judicial review proceedings relating to the Government's decision to designate the Airports NPS, the hearing for which has now been set for March 2019. Securing consent for large-scale infrastructure projects often involves judicial review and we remain fully confident that the Government's decision-making process was robust. The Airports NPS was overwhelmingly approved by a significant cross-party majority in Parliament. To date, there have been no successful challenges against the designation of a NPS.

Regulatory developments
The CAA's fundamental objective in developing the framework for the next regulatory period (known as H7) is to strike an appropriate balance between affordability and financeability to support capacity expansion in the best interest of consumers. Guided by this objective, the CAA continues to progress its thinking on the H7 framework with a new consultation launched in October 2018: 'Economic regulation of capacity expansion at Heathrow: policy update and consultation' (CAP1722). In this consultation the CAA discusses a number of areas, outlined below:

a) H7 is due to start in January 2022 and the CAA confirms that Heathrow should produce a Business Plan for H7 by the end of 2019 to commence the price setting process.

b) The CAA assesses that there are merits to the case for a potential modification to Heathrow's license by means of a new condition promoting economy and efficiency in the operation, maintenance and development of the airport.

c) The CAA provides a further update on its approach to issues raised by potential alternative arrangements for delivering new capacity at Heathrow airport.

d) The CAA also consults on its decision regarding its surface access policy and confirms the "user pays" principle.

Management review *continued*

***Regulatory developments** continued*

Finally, alongside the consultation documents, the CAA published a report assessing representations on scarcity rents accruing to airlines operating at Heathrow. The report acknowledges the existence of scarcity rents and considers that further work is required to establish the value. It also dismisses the position that scarcity rents are competed away on a route by route basis. The CAA plans to provide additional clarity on the regulatory framework in Q2 2019 upon publication of the next consultation papers.

Delivering an affordable expanded Heathrow is a very important issue for consumers and airlines. We have worked closely with our airline partners to refine our master plan to meet the Government's challenge to deliver expansion with average charges close to 2016 levels in real terms. In addition to the work under way on the H7 framework, based on a Memorandum of Understanding (MoU) agreed with major carriers, a Formal Agreement has been finalised between Heathrow and airline lawyers on the airline charges to be applied prior to the start of H7. Under the Formal Agreement, we will offer a rebate to all airlines depending on actual passenger traffic volumes. The rebate creates an incentive for airlines to make better use of our existing capacity by way of a volume discount while also providing downside protection in the event that volumes were to fall below current levels prior to 2022. Another benefit of the Formal Agreement is that it will enable all parties to concentrate on the longer term aim of securing a regulatory settlement for H7 which will support affordable and financeable expansion of Heathrow. The deal remains subject to consultation with the CAA and is not intended to replace the standard regulatory process for H7 which will continue in line with the CAA timetable.

Brexit

We continue to monitor progress made by the UK Parliament as it debates the proposed Withdrawal Agreement. While the continued delays in reaching an agreement increase uncertainty for UK businesses, the aviation industry remains well positioned as a result of the EU aviation contingency plans.

These plans ensure that in a no deal scenario and subject to a reciprocal offer by the UK, airlines will be able to continue to fly between the EU and UK. In addition, UK citizens will be permitted to travel visa free in the EU for up to 90 days and the EU will continue to recognise the UK for the 'EU One Stop Aviation Security Regime'. While these contingency arrangements are only intended to be in place until the end of 2019, if enacted we anticipate that there will be very little, if any, impact on flights if the UK departs the EU without a deal.

Separately, the UK Government is continuing work to implement replacement Air Service Agreements (ASAs) for the 17 countries which are currently covered by the UK's membership of the EU. The Government has already indicated that a number of these ASAs, including the agreement with the US, have been agreed and the remaining agreements will be put in place well in advance of the termination of the EU contingency plans or the UK leaving the EU. These new ASAs, combined with the existing 111 bilateral agreements with international destinations, will ensure that the vast majority of traffic at Heathrow is unaffected by the outcome of the negotiations on the transition agreement.

We have a unique position as we are the UK's only hub airport and global gateway. We benefit from a very well diversified traffic mix, more stable passenger traffic and demand than any other European airport and a robust regulatory framework. We have taken an extremely responsible approach to both operational and financial planning for 2019. Extensive operational contingency plans have been developed which will help to minimise any potential impact on passengers. In addition to maintaining substantial headroom to our covenant levels, we raised close to £2.3 billion from global investors in 2018. This extends our liquidity horizon until March 2021 and ensures that Heathrow has sufficient resources to cope with a no-deal Brexit and still meet its obligations, including progressing our expansion plans.

Strategic report *continued*

Financial review

Basis of presentation of financial results
The Company has prepared its financial statements and financial review in accordance with FRS 102.

Summary performance
In the year ended 31 December 2018, the Company's operating profit before certain re-measurements was £1,050 million (2017: £1,061 million) and its profit after tax including certain re-measurements was £446 million (2017: £649 million profit).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Revenue	**2,874**	2,828
Operating costs before depreciation and amortisation	**(1,082)**	(1,076)
Adjusted EBITDA[1]	**1,792**	1,752
Depreciation and amortisation	**(742)**	(691)
Adjusted operating profit[2]	**1,050**	1,061
Net finance costs before certain re-measurements	**(467)**	(554)
Adjusted profit before tax[3]	**583**	507
Tax charge on profit before certain re-measurements	**(148)**	(119)
Adjusted profit after tax	**435**	388
Including certain re-measurements		
Fair value gain on investment properties	**117**	149
Fair value (loss)/gain on financial instruments	**(98)**	148
Tax charge on certain re-measurements	**(8)**	(36)
Profit after tax	**446**	649

[1] Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and certain re-measurements.
[2] Adjusted operating profit is adjusted EBITDA including depreciation and amortisation.
[3] Adjusted profit is profit before re-measurements and tax thereon

For the year ended 31 December 2018, Adjusted EBITDA was £1,792 million (2017: £1,752 million) and EBITDA was £1,909 million (2017: £1,901 million) after adjusting for fair value gains on investment properties of £117 million (2017: £149 million).

Management uses Adjusted EBITDA to monitor performance of the segments as it believes it more appropriately reflects the underlying financial performance of the Company's operations. On a monthly basis management reviews results, paying particular attention to the airport operations over which it exercises control on a day-to-day basis.

Certain re-measurements comprise fair value movements on investment properties, which are mainly market-driven and over which Management has little influence; fair value gains and losses on financial instruments which are subject to external financial market fluctuations; tax associated with these items and the effects of changes in tax rates, which are set by statute.

Revenue
In the year ended 31 December 2018, revenue increased 3.0% to £2,874 million (2017: £2,828 million).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Aeronautical	**1,745**	1,716	1.7
Retail	**716**	659	8.6
Other	**413**	453	(8.8)
Total revenue	**2,874**	2,828	1.6

Aeronautical income continues to benefit from record traffic growth offset by recoverable yield dilution as airlines employ cleaner and quieter aircraft as incentivised by our tariff structure. We continue to deliver strong value for passengers with average aeronautical revenue per passenger decreasing by 1% to £21.78. (2017: £22.00).

Financial review *continued*
Revenue *continued*

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Retail concessions	**323**	304	6.3
Catering	**61**	56	8.9
Other retail[1]	**128**	109	17.4
Car parking	**126**	120	5.0
Other services[2]	**78**	70	11.4
Total retail revenue	**716**	659	8.6

[1] Other retail mainly consists of Bureaux de Change, Advertising, left luggage and vending.
[2] Other services mainly includes Car rental, Fast Track services and VIP charges.

Retail revenue growth was strong across all revenue streams, with retail concession reflecting higher passenger numbers as well as our 'call-to-gate' initiative which increases passenger dwell time in the departure lounges. Retail concessions were additionally boosted by the roll out of new digital capability on the online Heathrow boutique, allowing customers to reserve and collect their shopping, with 52 brands now offering this service. Catering also benefitted from the call-to-gate initiative, and strong performance in the year was further enhanced by refurbishments in Terminals 3 and 5, as well as 'Grab & Go' offerings for passengers to take meals with them on their flights. Other retail reflects a significant increase in advertising income due mainly to improved utilisation of advertising sites. Retail revenue per passenger rose 5.8% to £8.94 (2017: £8.45).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Other regulated charges	**243**	240	1.3
Heathrow Express	**123**	127	(3.1)
Property and other	**143**	142	0.7
Total other revenue	**509**	509	0.0

Other revenue remained consistent with last year. Other regulated charges grew through more passengers resulting in more bags being processed. Heathrow Express revenue declined with the cession of Heathrow connect services.

Operating costs before depreciation and amortisation

Operating costs before depreciation and amortisation increased 0.5% to £1,082 million (2017: £1,076 million). Operating costs per passenger before depreciation and amortisation declined by 1.9% to £14.14 (2017: £14.41).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Employment	**355**	349	1.7
Operational	**252**	241	4.6
Maintenance	**165**	164	0.6
Business rates	**119**	124	(4.0)
Utilities	**88**	86	2.3
Other	**103**	112	(8.0)
Operating costs before depreciation and amortisation	1,082	1,076	0.6

Operating cost increases were primarily driven by expansion and investment in safety, security and resilience. In the early part of the year, we spent over £5 million in ensuring operations ran with limited disruption during one of the worst winters in recent years. We also increased investment in our special assistance services, security costs to aid operational resilience and upgrading drone defence capabilities.

On a per passenger basis, costs have declined through cost efficiencies in people-related areas and a decline in Business Rates, offsetting increased pension charges including a one-off Guaranteed Minimum Payment equalisation of past service costs, and higher staff numbers to manage service and resilience while passenger numbers continue to increase.

Strategic report *continued*

Financial review *continued*

Operating profit before certain re-measurements

For the year ended 31 December 2018, the Company recorded an operating profit before certain re-measurements of £1,050 million (2017: £1,061 million). Adjusted EBITDA increased 2.3% to £1,792 million (2017: £1,752 million), resulting in an Adjusted EBITDA margin of 62.3% (2017: 62.0%). Depreciation and amortisation increased to £742 million (2017: £691 million).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Adjusted EBITDA	**1,792**	1,752	2.3
Depreciation and amortisation	**(742)**	(691)	7.4
Operating profit before certain re-measurements	**1,050**	1,061	(1.0)

Taxation

The tax charge for the period, before certain re-measurements, was £148 million (2017: £119 million) resulting in an effective tax rate of 25.4% (2017: 23.5%). The effective tax rate being higher than the statutory rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

The total tax charge for the year was £156 million (2017: £155 million). For the period ended 31 December 2018, the Company paid £70 million (2017: £53 million) in corporation tax.

Recent financing activity

The Group has raised close to £2.3 billion of debt financing globally in 2018, further strengthening its liquidity position and providing additional duration and diversification to its £14 billion debt portfolio. Of the £2.3 billion of debt financing raised, just over £1,124 million was in Class A debt excluding extensions to existing facilities, £381 million in Class B debt and £786 million of new debt at Heathrow Finance.

Class A financing activity included:

a) a £145 million 18-year Class A US private placement and a £55 million US Private Placement due in 2043,
b) a C$400 million 10-year public bond and a second C$400 million 12-year bond issuance (the first issuance by a UK based company with a maturity date beyond 10 years in the Canadian market),
c) a £160 million 40-year Class A inflation-linked bond,
d) a A$175 million 10-year Class A bond (our first issuance in the Australian market),
e) a £200 million 10-year Class A term loan facility with Export Development Canada ('EDC'), the Canadian Export Credit Agency with a 12 month availability period,
f) an amendment to an existing £418 million term loan facility to extend its maturity from March 2020 to October 2021, and
g) restructuring of the £600 million liquidity facility to a 5-year rolling facility.

Class B financing activity included:

a) a £255 million in private placements which mature between 2036 and 2041, and
b) a dual-tranche £126 million inflation-linked bond with maturities of 15 year and 18 year which will fund in March 2020.

Finally, financing activity at Heathrow Finance included:

a) a £300 million 5.5-year bond, and
b) £486 million in loan facilities which will be drawn between 2018 and 2020

Subsequent to the year-end, we also issued an irrevocable redemption notice for our 2019 Heathrow Finance bond on 28 January 2019.

Financial ratios

The Company continues to operate comfortably within required financial ratios. Gearing ratios under the Group's financing agreements are calculated by dividing nominal net debt by Heathrow's Regulatory Asset Base ('RAB').

At 31 December 2018, Heathrow's RAB was £16,200 million (2017: £15,786 million).

At 31 December 2018, the Group's senior (Class A) and junior (Class B) gearing ratios were 68.2% and 76.6% respectively (2017: 67.3% and 78.4% respectively) compared with trigger levels of 72.5% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 86.3% (2017: 86.6%).

Strategic report *continued*

Pension scheme
Heathrow operates a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 31 December 2018, the defined benefit pension scheme as measured under FRS 102 was funded at 100.7% (31 December 2017: 97.1%). This translated into a surplus of £28 million (31 December 2017: £124 million deficit). The £152 million increase in surplus in the year is primarily due to net actuarial gains of £141 million, attributable to an increase in the net discount rate of 0.45% over the year offset by assets having underperformed relative to the discount rate. In 2018, Heathrow contributed £48 million (31 December 2017: £50 million) into the defined benefit pension scheme including £23 million (31 December 2017: £23 million) in deficit repair contributions. Management believes that the scheme has no significant plan specific or concentration risks.

Outlook
The outlook for Adjusted EBITDA performance in 2019 remains consistent with the forecast set out in the Investor Report published on 20 December 2018. We also forecast to maintain comfortable covenant headroom.

2019 will see significant progress on our expansion plans including the recent launch of a consultation on airspace change in January and the launch of the formal statutory consultation on our expansion masterplan in June.

Key management changes
Chris Garton joined the company as Chief Operating Officer ('COO') in April 2018. He held a similar position for nine years at Dubai Airport until late 2016. He was most recently Director of Asset Management at Associated British Ports. During his career, Chris has also held a number of roles in engineering and change management at Gatwick Airport, Ineos and ICI. Mr Garton replaced Mr Derek Provan, who had been interim COO since October 2017.

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 Group acts ethically and has the necessary resources to meet its objectives, to monitor performance and to ensure the Group 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. Together they have appropriate competence in accounting and auditing.

Olivier Fortin (Chair)	Non-Executive Director
Jorge Gil	Non-Executive Director
Akbar Al Baker	Non-Executive Director
Emesto Lopez	Non-Executive Director

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 auditor's 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 Group and reviewing, and challenging where necessary, the actions and judgements of management, in relation to the interim and annual financial statements and any press release related to those statements,
- reviewing Internal Audit reports to the Audit Committee on the effectiveness of the Heathrow Airport Holdings Group's systems for internal control, financial reporting and risk management,
- reviewing the external auditor's management letter and management's responses,
- considering management's response to any major external or internal Audit recommendations,
- approving the appointment and dismissal of the Director of Internal Audit, Risk and Assurance,
- reviewing Heathrow's procedures for handling allegations from whistle-blowers,
- reviewing the ethics policy and monitoring its application throughout the business, considering any ethical issues which arise as a result of audit findings,
- overseeing all press releases relating to external financial results,
- reviewing Heathrow's tax policy and insurance strategy and arrangements,
- reviewing Heathrow's Insurance strategy and arrangements; reviewing the results of the Data Protection Officer's data privacy compliance monitoring programme and ensuring that the Data Protection Office is adequately resourced to carry out its tasks,
- considering the adequacy of management's response to any major data privacy non-compliance findings as a result of monitoring activities,
- ensuring that the accounts are fair, balanced and understandable, and
- considering any other topics, as defined by the Board.

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.

Paul Deighton (Chair)	Chairman of the Board
Jorge Gil	Non-Executive Director
Akbar Al-Baker	Non-Executive Director
Stuart Baldwin	Non-Executive Director
Mike Powell	Non-Executive Director
Rachel Lomax	Non-Executive Director

Leadership and governance *continued*

Board Committees *continued*

Nomination Committee *continued*

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.

Jorge Gil (Chair)	Non-Executive Director
Ernesto Lopez	Non-Executive Director
Stuart Baldwin	Non-Executive Director
Ahmed Al-Hammadi	Non-Executive Director
Rachel Lomax	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 payments 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.

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 approvals of:

- any prospectus or other listing document required in relation to the issuance of any capital markets instruments or any formal information memorandum in relation to borrowing by any member of the Group,
- the borrowing of any money or the assumption of any indebtedness by any member of the 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 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 Group,
- other than as required by the financing arrangements of any member of the Group, the making of any material loan or advance or giving of any guarantee, indemnity or provision of any credit, in each case in excess of certain financial thresholds,
- the creation of, or the granting of any permission to create, any mortgage, charge, encumbrance or other security interest on any uncalled capital or on any asset, in each case in excess of certain financial thresholds,
- any material change, amendment or variation to any of the financing arrangements of any member of the group or any request for any waiver thereunder or any entry into any new loan or loan facility, in each case in excess of certain financial thresholds,
- the entry into any new Non-Investment Grade Debt facility, and
- the bi-annual publication of investor reports in respect of Heathrow (SP) Limited and Heathrow Finance plc, pursuant to the requirements of the Common Terms Agreement and the Heathrow Finance financing arrangements.
- the entry into any new Non-Investment Grade Debt facility; and
- the bi-annual publication of investor reports in respect of Heathrow (SP) Limited and Heathrow Finance plc, pursuant to the requirements of the Common Terms Agreement and the Heathrow Finance financing arrangements.

Strategic report *continued*

Leadership and governance *continued*

Board Committees *continued*

Executive Committee

The Executive Committee consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Information Officer, the Chief of Staff and Group General Counsel, the Chief People Officer, Expansion Director, Chief Commercial Officer and Chief Strategy Officer.

The Executive Committee is the management committee of the Chief Executive and is responsible for, among other things, developing, reviewing and refreshing medium and long term Group business strategies, policies and development plans for Board approval, agreeing short-term tactics and action plans to ensure their delivery and reviewing the principal risks and the risk management framework.

Executive Risk Committee

The Risk Committee is chaired by the Chief of Staff and Group General Counsel and consists of the Chief Financial Officer, the Chief Operating Officer, the Expansion Director and the Chief Strategy Officer. It is responsible for reviewing the effectiveness of the risk management strategy and framework and for reviewing the principal risks. The Risk Committee is a sub-committee of the Executive Committee.

Sustainability and Operational Risk Committee

The Sustainability and Operational Risk Committee (formerly the Responsible Heathrow 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.

David Begg (Chair)	Non-Executive Director
John Holland-Kaye	Chief Executive Officer
Jorge Gil	Non-Executive Director
Olivier Fortin	Non-Executive Director
Akbar Al-Baker	Non-Executive Director

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

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

Internal controls and risk management

Internal controls and risk management are key elements of the Group's corporate operations. Risk is centrally managed within the Group as part of Corporate Services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team. The Corporate risk management function, sets the strategy for risk management to provide the necessary framework to ensure that key risks are managed and embeds a sustainable risk management culture that views the execution of risk management processes and practices across Heathrow as a key enabler to Heathrow achieving its business objectives.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Group and for reviewing the effectiveness of the system. This is implemented by applying the Group internal control procedures, supported by a 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 Group's 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 Heathrow Airport Holdings Limited (the "Board") of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- Audit Committee review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items:
  - compliance with accounting, legal, regulatory and lending requirements;
  - critical accounting policies and the going concern assumption;
  - significant areas of judgement and estimates;
  - key financial statement risk areas as reported further below in the report;
- independent review of controls by the Internal Audit function, reporting to the Audit Committee; and
- a confidential whistleblowing process.

Risk management

Our aim is to gain a deep understanding of the principal risks we face at all levels of the business and to focus management attention on effective mitigation of these risks as well as a review of over-the-horizon emerging risks which may impact the business and strategy of Heathrow.

We continue to roll out a risk improvement plan which is focussed on improving accountability for end-to-end risk management at all levels and drive improvements in our risk culture. The risk improvement plan covers all the key elements of an effective risk management framework including risk leadership, informed risk decision making, competency and risk skills, governance including timeliness and transparency of risk information and clarity of accountability for managing risks. We assess and monitor our risk maturity across all key areas and drive improvements where required.

Principal risks

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

- 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;
- to give passengers the best airport service in the world we'll work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience;
- to secure future investment we will beat the Q6 business plan and deliver a competitive return to our shareholders by growing our revenue, reducing costs and delivering investments more efficiently; and
- to grow and operate our airport sustainably, now and in the future.

The principal risks identified by the Executive Committee are:

Business resilience

Business resilience risks can relate to Heathrow's assets, infrastructure, human or electronic processes or systems, the failure of which, by accident or deliberate act, could result in prolonged periods of interruption to critical services/operations and passenger experience. 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.

Strategic report *continued*

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Business resilience *continued*
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 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. Through a series of programmes the Group 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 Group will achieve its goals and give excellent passenger service, avoid safety and security incidents, protect resilience and deliver successful change.

People
Heathrow employs around 6,700 colleagues and, in a complex business such as Heathrow's, there are risks associated with recruiting, screening, motivating, developing and training employees on a large scale, as well as rewarding appropriately and retaining critical talent and ensuring succession plans are in place.

Heathrow has a transparent recruitment process and is committed to recruiting diverse talented individuals from all sectors of the community. Heathrow has committed to reflecting local diversity at all levels in the company by 2025. At all stages of the recruitment and selection process, interviewing and selection will always be carried out without regard to gender, sexual orientation, disability, marital status, colour, race, ethnic origins, religion or religious belief or age. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty which is intrinsic to the role, having taken into account any reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure an applicant is not disadvantaged due to his/her disability. All successful external candidates are subject to a criminal records check and the appropriate security clearance as required by the role.

Heathrow has strategies and policies in place to engage and motivate its colleagues so they are excited and challenged by their work environment, accountable and compliant with internal governance, policies and procedures. Heathrow provides great career opportunities, development and training, retaining talent and knowledge and preventing single points of failure.

Anti-corruption and anti-bribery matters
Heathrow takes a zero-tolerance approach to bribery and corruption and is committed to conducting its business in an honest and ethical manner, in compliance with the Bribery Act 2010 (the "Bribery Act") and applicable anti-bribery and anti-corruption laws. Breach of anti-bribery provisions by Heathrow employees, paid or voluntary agents, consultants or suppliers could result in Heathrow breaching the Bribery Act by failing to prevent an act of bribery being committed. If Heathrow is found guilty of such an offence, Heathrow could face an unlimited fine, exclusion from tendering for public companies, as well as significant reputational damage. As such, Heathrow embeds and maintains robust Anti-Bribery, Gifts & Hospitality Policy and Guidance (the "Anti-Bribery Policy") and other effective systems and controls to prevent bribery and corruption at Heathrow. All employees and third parties associated with Heathrow are required to conduct themselves according to the standards set out in the Anti-Bribery Policy. Any breach of the Anti-Bribery Policy will result in disciplinary action, and, if appropriate, in instant dismissal and referral to the relevant law enforcement authorities. In addition, our Whistleblowing Policy encourages individuals to report any wrong-doing which extends to bribery and corruption matters. All whistleblowing reports are treated in the strictest confidence and are investigated fully with appropriate actions taken.

Corporate social responsibility
Heathrow 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. It may restrict opportunities to grow and threaten Heathrow's social license to operate if local communities do not believe the airport is managed responsibly or that its economic benefits are optimised without prioritising profits over the long-term interests of local communities.

Environmental risk has the potential to impact negatively upon Heathrow's reputation and jeopardise its licence to operate and to grow.

The Group undertakes procurement responsibly and encourages trade and employment opportunities for local communities. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established.

Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. The Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Stakeholders
Poor interactions and relationships with key stakeholders including partners, suppliers and airlines could negatively impact passenger experience, airport operations, financial performance and Heathrow's reputation.

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.

Legal, regulation and compliance
Operations at Heathrow airport are currently subject to economic regulatory review by the CAA normally every five years. Its principal risks relate to changes in economic regulations, non-compliance with these and other regulations, licence conditions, financing covenants, contractual requirements and penalties for failing to comply with competition and relevant EU law. Failure to comply with laws and regulations can have far reaching consequences, including loss of licence, penalties, claims and litigation, reputational damage and loss of stakeholder confidence.

The risk of an adverse outcome from economic regulatory 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. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of Heathrow breaching laws, regulations and contractual requirements.

Health and safety
Heathrow has a statutory and moral responsibility to ensure that it safeguards the welfare and safety of its people, business partners and the public who may be affected by its activities. Heathrow recognises that a failure to exercise this responsibility effectively also risks operational disruption, inconvenience to passengers and long-term damage to its reputation.

Heathrow'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 airport's business. Heathrow 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 that controls around health and safety risks remain effective and continuous improvement is encouraged.

Security
Heathrow is responsible for ensuring that its assets, infrastructure, human and electronic systems and processes meet the minimum statutory requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers. It also needs to ensure that its assets, infrastructure, human and electronic systems are protected from theft, damage or intrusion.

Security risks, including cyber security, terrorism risks, and information security, are mitigated by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading edge security technology. Heathrow 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.

Strategic direction and management of change
Heathrow airport is operating its runways at close to full capacity and failure to secure the necessary Development Consent Order, following a robust consultation process, for the third runway, for which Heathrow is the preferred choice of the UK Government, 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 Group's strategy. The Group also needs to influence the pace and direction of changes to regulations, legislation, government policy, aviation and the wider economy and ensure that it does not lose airlines' support for expansion.

Heathrow recognises that failure to control key development costs and delivery could damage its financial standing and reputation. There are risks that projects fail to deliver to the agreed quality, specification, time and budget as well as risks that the benefits of change are not realised, return on investments not realised and transformation not delivered.

Strategic report *continued*

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Strategic direction and management of change *continued*
The planning process for all major national infrastructure projects in the UK sets out a number of steps that the Group needs to go through to obtain development consent to expand Heathrow: a National Policy Statement, a Development Consent Order and public consultation before a final decision is taken by the UK Government for the third runway. The Group's planning process is well underway and it is building an organisation and expertise to ensure this process runs smoothly. Heathrow will undertake extensive consultations with community groups and authorities at a local level and is an active participant in government consultations and other advisory groups.

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 Heathrow. Since it is not possible to identify the timing or period of such an effect, the Group carries out evaluations through a series of scenario planning exercises. Risks associated with the uncertainties arising from the current Brexit negotiations are monitored and managed as far as possible including putting in place contingency plans.

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 ongoing requirements are articulated and understood.

Heathrow mitigates project risks 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.

Brexit
We continue to monitor progress made by the UK Parliament as it debates the proposed Withdrawal Agreement. While the continued delays in reaching an agreement increase uncertainty for UK businesses, the aviation industry remains well positioned as a result of an agreed set of reciprocal UK/EU aviation contingency plans.

These plans ensure that in a no deal scenario airlines will be able to continue to fly between the EU and UK. In addition, UK citizens will be permitted to travel visa free in the EU for up to 90 days and the EU will continue to recognise the UK for the 'EU One Stop Aviation Security Regime'. While these contingency arrangements are only intended to be in place for an interim period, with durations ranging from the end of 2019 and the end of March 2020, if enacted we anticipate that there will be very little, if any, impact on flights if the UK departs the EU without a deal.

We have a unique position as we are the UK's only hub airport and global gateway. We benefit from a very well diversified traffic mix, more stable passenger traffic and demand than any other European airport and a robust regulatory framework. We have taken an extremely responsible approach to both operational and financial planning for 2019. Extensive operational contingency plans have been developed which will help to minimise any potential impact on passengers. In addition to maintaining substantial headroom to our covenant levels, we raised close to £2.3 billion from global investors in 2018. This extends our liquidity horizon until March 2021 and ensures that Heathrow has sufficient resources to cope with a no-deal Brexit and still meet its obligations, including progressing our expansion plans.

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

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 Group's business operations and funding. To achieve this, the Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

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

(a) Interest rates
The Group maintains a mix of fixed and floating rate debt. As at 31 December 2018, fixed rate debt after hedging with derivatives represented 89.7% Group's total external nominal debt.

(b) Inflation
The Group mitigates the risk of mismatch between Heathrow's aeronautical income and regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments, by the issuance of index-linked instruments.

(c) Foreign currency
The Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

(d) Funding and liquidity
The Group has established both investment grade (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 ongoing basis with formal testing reported to the Audit Committee, the Board and Executive Committee.

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

The Group 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 2019. As at 31 December 2018, the Group had cash and cash equivalents and term deposits of £758 million, undrawn headroom under revolving credit facilities of £1,150 million, committed term debt financing to be drawn after 31 December 2018 of £200 million and undrawn headroom under liquidity facilities of £595 million.

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

The 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 generally no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2 (S&P)/F1 (Fitch). The 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)/BBB+ (Fitch).

Strategic report *continued*

Internal controls and risk management *continued*

Risk management *continued*
Principal risks *continued*
Financial statements risk
The Audit Committee reviewed critical accounting judgements and key sources of estimation uncertainty outlined in the "Accounting policies" section of the financial statements. Based on the discussion with the management, work and recommendation of the Group finance function and input from external auditor, the Committee considered that the most significant financial statements risk matters are as follows:

(i) Classification of costs between operating expenditure and capital expenditure

The Group has a substantial Q6 capital programme which has been agreed with the regulator (the Civil Aviation Authority) and therefore incurs significant expenditure investing in assets to improve operational performance, airport resilience and passenger experience. Since October 2016, the Group has also begun investing in Expansion.

Only those costs which satisfy the requirements of IAS16 *'Property, Plant and Equipment'* should be capitalised, which in some cases requires management judgement. Controls and processes related to capital expenditure are directed by the Fixed Asset Steering Group (chaired by the CFO), which reports regularly to the Audit Committee through formal Committee papers and provides them with the opportunity to scrutinise and challenge the judgement made.

The Group has a Property, plant and equipment ("PP&E") Accounting Policy, which outlines the requirements for costs to be eligible for capitalisation and a separate Capitalised Interest Policy which applies to interest costs incurred whilst a project is under construction. Both the PP&E Accounting Policy and the Capitalised Interest Policy are formally published on and communicated to management and employees via the Group's intranet site. These policies are applied and their application is monitored on a regular basis to ensure that all costs eligible for capitalisation and interest costs incurred whilst a project is under construction are correctly capitalised. The PP&E Accounting Policy has been updated to ensure clarity around the treatment of costs relating to Expansion.

Each capital project follows a defined project governance process. This includes a Financial Assurance Review by the Heathrow Finance department which concludes on the appropriate accounting treatment in accordance with the Group's capitalisation policy for the expenditure to be incurred on the project. The project governance process also includes each project being reviewed and approved by the relevant Governance Groups, including the Heathrow Investment Committee for significant projects.

The spend on the project is reviewed and approved by appropriate delegated financial authorities ensuring the correct classification of cost. The Programme Management Office (PMO) is responsible for tracking and monitoring spend against the project cost plan, and when the project is completed a final review of costs incurred is carried out by Finance before transferring the capital cost of the project to the Fixed Asset Register.

Heathrow is currently in the process of obtaining a Development Consent Order (DCO) for Expansion. Particular emphasis is being placed on ensuring that capitalised costs will deliver future economic benefit and are directly attributable to obtaining DCO, through regular reviews and senior leadership involvement. The CAA and independent consultants have also been engaged in reviewing planned and actual capitalised costs (*ex ante* and *ex post)* to ensure that they are efficient, incremental, and directly attributable to obtaining DCO. During the year ended 31 December 2018, the Group recorded £127 million of such expansion related costs in assets in the course of construction (2017: £83 million)

(ii) Hedge accounting

The Group designates certain derivative financial instruments as cash flow hedges where they hedge exposure to variability in cash flows of existing liability or forecast transaction. Significant changes in the expected quantum of future Sterling refinancing may lead to insufficient Sterling borrowings to support components of the cash flow hedge reserve, requiring the recycling of the cash flow hedge reserves through income statement.

Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be timing differences, credit risk adjustments and currency basis.

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Financial statements risk *continued*
(ii) Hedge accounting continued
When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for cash flow hedge accounting, any cumulative gain or loss in equity remains in equity and is recycled on a straight line basis as the forecast transaction is recognised in the income statement. When or if a forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is immediately recycled through the income statement.

The Group documents as follows:
- at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions;
- both at inception and on an on-going basis, its assessment of whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

On a quarterly basis, management:
- compares existing and historic hedging arrangements against expectations of future refinancing of Sterling denominated borrowings;
- reviews floating Sterling debt supporting the existing Cash Flow Hedge Reserve ('CFHR') to ensure the debt is greater than swap notional, which supports the existing designations.

On a quarterly basis, management provides updates to the Audit Committee on CFHR and its assumptions.

(iii) Fair value of derivative financial instruments
The Group holds a substantial derivative financial instruments portfolio comprising interest rate swaps, cross currency swaps, and index-linked swaps which are accounted for at fair value. In determining the fair value, judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps). Due to the significance of the Group's derivative financial instruments and the related estimation uncertainty, there is a risk that derivative financial instruments are not valued based on appropriate assumptions and / or estimates.

The valuation of the Group's derivative financial instruments is determined through the application of a discounted cash flow approach and the use of inputs based on observable market data where these are available. The fair value of cross-currency, interest rate and index-linked swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The credit risk associated with the Group's derivative financial instruments is updated monthly based on current market data. The recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps) is validated quarterly with a counterparty bank.

(iv) Fair value of investment properties
The Group holds a variety of investment properties that are accounted for at fair value. In determining the fair value, judgement is required with regard to a number of valuation assumptions that include property rental growth rate, operating cost and expected yields.

Independent valuations are obtained for all investment properties. The valuations are prepared 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. This market evidence also takes into account planned transactions and use of the property.

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

Javier Echave
Director

16 April 2019

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 2018.

Principal activities
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 generates revenue from a variety of sources, including services to airlines, concession fees from retail operators, income from car parks, advertising revenue, the rental of airport premises and the provision of facilities and services.

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 25.

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 £446 million (2017: £649 million).

Dividends of £483 million were paid during the year (2017: £277 million). The dividend payments were utilised primarily to fund dividends to the Company's ultimate shareholders and to service external debt held by one of the Group's holding companies. On 20 February 2019, the Board approved a dividend payment of £100 million (to fund dividends to the shareholders of FGP Topco Limited) to be made on 1 March 2019 and a dividend payment of £1.78 million (to service external debt held by one of the Group's holding companies) to be made on 11 March 2019.

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

Ross Baker	
Stuart Birrell	
Javier Echave	
Chris Garton	Appointed 16 April 2018
Emma Gilthorpe	
John Holland-Kaye	
Carol Hui	
Andrew Macmillan	
Derek Provan	Resigned 16 April 2018
Paula Stannett	

Going Concern
The financial statements have been prepared on a going concern basis, which requires the Directors to have a reasonable expectation that the Company, as part of the Heathrow Airport Holdings Limited group (the Group'), has adequate resources to continue in operational existence for the foreseeable future. The going concern accounting policy on page 37 provides more detail.

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

The Group has defined a set of guiding principles to ensure fair recruitment and selection. The Group continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles.

The Group is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Group actively encourages a diverse range of applicants and commits to fair treatment of all applicants. The Group's investment in learning and development is guided by senior line managers who ensure that the Group provides the learning opportunities to support the competencies that are seen as key to the Group's success.

Colleagues with disabilities have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Group has further procedures to ensure that disabled colleagues are fairly treated in line with the Equality Act (2010). Where employees have become disabled during the course of employment, the Group endeavours to ensure continuing employment in line with the Reasonable Adjustments Policy as agreed between the Group and the recognised Trade Unions (Unite, PCS and Prospect).

Directors' report *continued*

Employment policies (continued)
Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, road shows and an intranet. Collective bargaining takes place with the unions Unite, PCS and Prospect for those employee groups for which these unions are recognised. The Group is committed to managing people through change fairly.

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. Bonuses paid to employees reflect the financial performance of the business. A Share In Success saver scheme in which eligible employees can save money which the company matches as a contribution in line with business performance has been in place since 2015. In addition, some senior management participate in long-term incentive plans which also rewards based on group performance.

The Group has no direct employees. The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the Heathrow Airport Holdings group. The Group directly incurs the employment cost of services provided to the Group as stated in the Accounting policies on page 46.

Donations
The Company's charitable donations for the year amounted to £1 million (2017: £2 million). The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows:

Beneficiaries	Contribution	Summary of activities
LHR Airport Communities Trust	£725,000	LHR Airport Communities Trust is an independently run grant-making charity which operates the Heathrow Community Fund (HCF). As well as input funding from Heathrow, the Trust receives noise fines levied on airlines when they break noise regulations and money generated through fundraising by Heathrow colleagues and others. The Trust's grant programme supports significant and positive improvement in quality of life for communities near the airport. It also supports colleague volunteering and fundraising to improve the community or a cause they believe in.
Duke of Edinburgh's Award Scheme	£200,000	The Duke of Edinburgh's Award (DofE) programme of volunteering and challenges transforms young people's confidence, skills and wellbeing. Our partnership gives colleagues the chance to unlock their potential. They can pick from a programme of DofE-themed activities designed to build self-belief and team-working abilities. This includes taking on challenges and offering work experience days for local young people. DofE receives a combination of input funding from Heathrow and money generated through fundraising by Heathrow colleagues and others.
Other	£30,000	In addition to our official charity partnerships, Heathrow occasionally gives discretionary funding on an ad-hoc basis and facilitates colleagues and passengers to support national charitable campaigns, thereby generating output funding.

In 2018 Heathrow launched a new partnership with CARE International UK, specifically to enable Heathrow passengers and colleagues to support entrepreneurs living in poverty around the world, through the 'Lend with care' initiative. 'Lend with care' is an online lending platform that allows you to personally give entrepreneurs much-needed access to credit and training. This money is then used to help change the lives of those living in poverty. CARE receives donations from Heathrow's passengers and money generated through fundraising by Heathrow colleagues and others.

In 2018 Heathrow and Oxfam's 5-year partnership came to an end. The aim was to promote the idea of a shared global community. This reflected Heathrow's objective of being a responsible gateway to the world and Oxfam's role in supporting the most vulnerable people in over 90 countries. Many colleagues engage with the partnership through fundraising and participation in challenge events. Oxfam received donations from Heathrow's passengers and money generated through fundraising by Heathrow colleagues and others.

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 19 to 25 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 19 to 25 in the Internal controls and risk management section of the Strategic report.

Directors' report *continued*

Non-Financial Reporting Requirement
We aim to meet all disclosure and reporting requirements relating to Non-Financial matters both with the Annual Report and Accounts and elsewhere in published information on the Heathrow.com website. The matters below are referenced to where further information can be found within this report.

• Environmental Matters	Sustainable Growth	Page 9
	Business Resilience	Page 19
	Corporate Social Responsibility	Page 20
• Colleagues	Colleague Policy	Page 20,26
	Health and Safety	Page 21
• Anti-corruption and Bribery Policy		Page 20
• Social Matters	Charitable Donations	Page 27
• Security of the Airport and Passengers		Page 21
• Leadership and Governance		Page 16
• Description of Principal Risks	Business Risks	Page 19
	Financial Management Risks	Page 24
• Description of the Heathrow Business Model		Page 2
• Non-financial performance indicators		Page 6
• Research and development and innovation		Page 9

Directors' indemnity
The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by them in defending any proceedings in which judgement is given in their favour, or in which they 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. This indemnity also applies to the directors who are directors of other companies within the group.

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.

After a comprehensive tender process the board have appointed Price Waterhouse Coopers (PwC) as auditor of the group for the financial year ending 31 December 2020.

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/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

Javier Echave
Director
16 April 2019
Company registration number: 05723961

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 (United Kingdom Accounting Standards and applicable law), including 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.

Heathrow Airport Limited

Independent auditor's report to the members of Heathrow Airport Limited for the year ended 31 December 2018 *continued*

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Heathrow Airport Limited (the 'Company'):
- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- Significant accounting judgements and estimates;
- accounting policies; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:
- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Heathrow Airport Limited

Independent auditor's report to the members of Heathrow Airport Limited for the year ended 31 December 2018 *continued*

Responsibilities of directors
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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report
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.

Simon Cleveland

Simon Cleveland FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
16 April 2019

Heathrow Airport Limited

Income statement for year ended 31 December 2018

		Year ended 31 December 2018			Year ended 31 December 2017		
	Note	Before certain re-measurements £m	Certain re-measurements[1] £m	Total £m	Before certain re-measurements £m	Certain re-measurements[1] £m	Total £m
Continuing operations							
Revenue	1	2,874	-	2,874	2,828	-	2,828
Operating costs	2	(1,824)	-	(1,824)	(1,767)	-	(1,767)
Other operating items							
Fair value gain on investment properties	6	-	117	117	-	149	149
Operating profit		1,050	117	1,167	1,061	149	1,210
Financing							
Finance income		193	-	193	165	-	165
Finance costs		(660)	(98)	(758)	(719)	148	(571)
	3	(467)	(98)	(565)	(554)	148	(406)
Profit before tax		583	19	602	507	297	804
Tax charge		(148)	(8)	(156)	(119)	(36)	(155)
Taxation	4	(148)	(8)	(156)	(119)	(36)	(155)
Profit for the year[2]		435	11	446	388	261	649

[1] Certain re-measurements consist of: fair value gains on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, the effects of the changes in tax rate and the associated tax impact of these.

[2] Attributable to owners of the parent

Heathrow Airport Limited

Statement of comprehensive income for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the year		**446**	649
Items that will not be subsequently reclassified to the income statement:			
Actuarial gain on pensions			
(Loss)/gain on plan assets[1]	*15*	**(192)**	62
Decrease/(increase) in scheme liabilities[1]	*15*	**310**	(116)
Tax relating to indexation of operational land		**-**	2
Other comprehensive loss for the year net of tax		**118**	(52)
Total comprehensive income for the year		**564**	597
Attributable to owners of the parent		**564**	597

[1] Items in the statement above are disclosed net of tax. The tax relating to each component of other comprehensive income is disclosed in Note 21.

Heathrow Airport Limited

Statement of financial position as at 31 December 2018

	Note	31 December 2018 £m	31 December 2017 £m
Assets			
Non-current assets			
Property, plant and equipment	5	11,404	11,307
Investment properties	6	2,472	2,350
Intangible assets	7	173	175
Retirement benefit surplus	15	28	-
Investment in subsidiary	8	42	42
Derivative financial instruments	13	9	-
Trade and other receivables	10	2,537	2,694
		16,665	16,568
Current assets			
Inventories	9	13	11
Trade and other receivables	10	408	598
Term deposits	11	120	12
Cash and cash equivalents	11	588	233
		1,129	854
Total assets		17,794	17,422
Liabilities			
Non-current liabilities			
Borrowings	12	(12,394)	(11,620)
Derivative financial instruments	13	(1,334)	(1,092)
Deferred income tax liabilities	14	(436)	(387)
Retirement benefit obligations	15	(32)	(158)
Provisions	16	(1)	(8)
Trade and other payables	17	(30)	(31)
		(14,227)	(13,296)
Current liabilities			
Borrowings	12	(437)	(1,168)
Derivative financial instruments	13	(20)	(3)
Provisions	16	(13)	(6)
Current income tax liabilities		(38)	(24)
Trade and other payables	17	(553)	(495)
		(1,061)	(1,696)
Total liabilities		(15,288)	(14,992)
Net assets		2,506	2,430
Equity			
Capital and reserves			
Share capital	18	37	10
Share premium		-	350
Revaluation reserve		691	598
Retained earnings		1,778	1,472
Total shareholder's equity		2,506	2,430

These financial statements of Heathrow Airport Limited (Company registration number: 01991017) were approved by the Board of Directors and authorised for issue on 16 April 2019. They were signed on its behalf by:

Javier Echave
Director

John Holland-Kaye
Director

Heathrow Airport Limited

Statement of changes in equity for the year ended 31 December 2018

	Notes	Share capital £m	Share premium £m	Revaluation reserves £m	Profit and loss reserve £m	Total £m
31 December 2016		10	-	457	1,293	1,760
Profit for the year					649	649
Other comprehensive Income						
Actuarial loss on retirement benefit schemes:						
Gain on plan assets					62	62
Increase in scheme liabilities					(116)	(116)
Tax relating to indexation of operational land				2	-	2
Total comprehensive income				2	595	597
New shares issued		-	350	-	-	350
Other movements						
Transfer between reserves - investment property fair value movements[1]				149	(149)	-
Deferred tax on investment properties[1]				(10)	10	-
Total transfer to revaluation reserve		-	-	139	(139)	-
Transactions with owners						
Dividends paid	*19*				(277)	(277)
Total transactions with owners		-	-	-	(277)	(277)
31 December 2017		**10**	**350**	**598**	**1,472**	**2,430**
Adjustment in respect of						
Transition to IFRS 9					**(5)**	**(5)**
1 January 2018 (re-stated)		**10**	**350**	**598**	**1,467**	**2,425**
Profit for the year					**446**	**446**
Other comprehensive income						
Actuarial loss on retirement benefit schemes:						
Loss on plan assets					**(192)**	**(192)**
Decrease in scheme liabilities					**310**	**310**
Total comprehensive income		**-**	**-**	**-**	**564**	**564**
Transfer between reserves - investment property fair value movements[1]				**117**	**(117)**	**-**
Deferred tax on investment properties[1]				**(17)**	**17**	**-**
Deferred tax on property, plant and equipment revaluations				**(7)**	**7**	**-**
Total transfer to revaluation reserve		**-**	**-**	**93**	**(93)**	**-**
Transactions with owners						
New shares issued	*18*	**1,271**			**(1,271)**	**-**
Reduction of nominal share capital from 0.34p to 0.01p	*18*	**(1,244)**			**1,244**	**-**
Transfer to retained earnings			**(350)**		**350**	**-**
Dividends paid	*19*				**(483)**	**(483)**
Total transactions with owners		**27**	**(350)**	**-**	**(160)**	**(483)**
31 December 2018		**37**	**-**	**691**	**1,778**	**2,506**

[1] Movements in the valuation of investment properties recorded to the income statement are transferred to the revaluation reserve with the associated deferred tax liability and the prior year deferred tax liability on revaluations of property, plant and equipment. Details of the amount of deferred tax are in Note 14.

Accounting policies for the year ended 31 December 2018

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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102').

The Company
The Company is a private company limited by shares, incorporated in the United Kingdom and registered in England and Wales. The registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Basis of accounting
The Company financial statements are prepared in accordance with FRS 102 and are presented on the basis of the historical cost convention, except for investment properties and derivative financial instruments which have been measured at fair value in accordance with FRS 102 and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

The financial statements are presented in Sterling and are rounded to the nearest million pounds (£m), except when otherwise noted.

The Company has adopted the following standards that are relevant to these financial statements 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')
- IFRS 9 'Financial Instruments' as endorsed by the European Union ('EU').

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

Individual entity financial statements
The Company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of FGP Topco Limited and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2018. The 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 prepared in accordance with FRS 102, as it applies to the Company financial statements for the year ended 31 December 2018, as per Section 301(A) under FRS 102.

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column. This column includes certain re-measurements as listed in (i) and (ii) below, which management separates from the underlying operations of the Company. Also, this column includes exceptional items as listed in (iii) and the effect on taxation of changes in tax rates in (iv) and (v) below. By isolating certain re-measurements and exceptional items, management believes the underlying results provides the reader with a more meaningful understanding of the performance of the Company, by concentrating on the matters over which it exerts influence, whilst recognising that information on these additional items is available within the financial statements, should the reader wish to refer to them.

The column 'certain re-measurements' in the income statement contains the following items:

(i) fair value gains and losses on investment property revaluations and disposals,
(ii) derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship,
(iii) exceptional items,
(iv) the associated tax impacts of the items in (i), (ii) and (iii), and
(v) the impact on deferred tax balances of known future changes in tax rates.

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.

Changes in accounting policy and disclosures
(a) Amended standards adopted by the Company
During the year, the Company adopted IFRS 9 *Financial Instruments*, as issued by the IASB, which is mandatorily effective for accounting periods beginning on or after 1 January 2018.

Impact of initial application of IFRS 9 *Financial Instruments*
As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Additionally, the Company adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018.

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and rules for hedge accounting. Details of these new requirements as well as their impact on the Company's financial statements are described below.

(i) Classification and measurement of financial assets
Under IFRS 9, all the financial assets are measured at amortised cost, fair value through profit or loss or fair value through OCI on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Company's financial assets include cash and cash equivalents (including short term deposits), loans to third parties, trade and other receivable, intercompany loan receivables, derivatives and other debtors. These financial assets continue to be measured at amortised cost as they meet the conditions under IFRS 9.

(ii) Impairment of financial assets
The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL). It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets, lease receivables, loan commitments and certain financial guarantee contracts.

The introduction of new impairment model has an impact on Company's trade receivables and investments in debt-type assets measured at amortised cost. For contract assets and trade receivables, the Company applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component. Based on the assessment undertaken, the Company recorded a total impairment loss of £5 million on its intercompany receivables and trade receivables on transition.

(iii) Hedge accounting
IFRS 9 contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

IFRS 9 introduces an optional treatment for cross currency swaps designated in hedge relationships, whereby the currency basis element can be bifurcated with changes in fair value recorded in OCI. The Company has not elected to apply this accounting treatment, but instead treated it as a source of ineffectiveness.

There is no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit and loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed.

The new standard introduces expanded disclosure requirements and changes in presentation. The below table shows information relating to financial assets that have been reclassified as a result of transition to IFRS 9.

Accounting policies for the year ended 31 December 2018 *continued*

Impact of initial application of IFRS 9 *Financial Instruments* continued

	Original IAS 39 Category	New IFRS 9 Category	Closing balance 31 December 2017 £m	Adoption of IFRS 9 £m	Opening balance 1 January 2018 (IFRS9) £m
Non-current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	2,694	(3)	2,691
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	598	(2)	596
Term deposits	Amortised cost	Amortised cost	12	-	12
Cash and cash equivalents	Amortised cost	Amortised cost	233	-	233
Total financial assets			**3,537**	**(5)**	**3,532**

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

	IAS 39 Carrying amount 31 December 2017 £m	Re-measurement £m	IFRS 9 Carrying amount 1 January 2018 £m	Retained earnings impact (IFRS 9) £m
Amortised cost assets	3,537	(5)	3,532	(5)
Total financial assets	3,537	(5)	3,532	(5)

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

Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue 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
- 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.
- Passenger charges based on the number of departing passengers on departure.
- 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 on the date of arrival at the car park, in the case of pre-booked parking, or on the date of departure from the car park in the case of pay-on-exit, 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; where tickets are booked in advance the revenue is recognised when the ticket is first used. Where tickets are bought at a rail station, the revenue is recognised immediately at the point of sale.

Contributions
On occasion, the Company 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.

Finance income
Finance income 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 income statement 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 Company's credit setting, are recognised in the income statement 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:

- the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the Company can demonstrate how the intangible asset created will generate future economic benefits;
- the Company has available the resources to complete the asset;
- the Company intends to complete that asset and has the future ability to sell or use the asset; and
- the development cost of the intangible asset can be measured reliably.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be held at cost less any accumulated amortisation and impairment. Amortisation begins when development is complete and the asset is ready for use.

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. During the period of development, the asset is tested for impairment annually.

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 four and fifteen years, based on the life of the relevant licence or other agreement. Amortisation for the year is charged on a straight-line basis, through operating costs. The assets are assessed for impairment whenever there is indication that the intangible asset may be impaired.

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 accumulated impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Assets in the course of construction are stated at cost less any 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 (see "Borrowing Costs" policy); 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 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.

Tangible fixed assets *continued*

Heathrow Expansion

Assets in the course of construction include qualifying costs in respect of the Heathrow Expansion following the Government decision in October 2016 in favour of Heathrow, and subsequent Board decision to apply for the Development Consent Order.

These two events were considered by management to be a trigger point for the expansion project to proceed. Management subsequently announced publicly that the Group would apply for planning permission, in the belief that it is highly probable that expansion at Heathrow will be realised. As a result, the Group has started to capitalise eligible costs as 'assets in the course of construction'.

The costs which are directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity through the Development Consent Order process are capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets. These costs include Environmental Impact Assessments, Statutory consultation, and Master plan options.

In the context of FRS 102 Section 18 (see Accounting Policy – Internally-generated intangible assets), October 2016 is also considered to be the point at which Expansion moved from the Research phase to the Development phase, and therefore development expenditure is capitalised where it meets the criteria of Section 18 of FRS 102.

Research costs, together with Expansion costs incurred by Heathrow during the Airports Commission process and before Heathrow was named as the preferred location for new runway capacity in October 2016 were expensed in the period they were incurred.

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 - 120 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
Plant equipment and other assets	
Motor vehicles	4 - 8 years
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Other land and buildings	
Short leasehold properties	3 - 20 years
Leasehold improvements	lower of useful economic life or period of lease

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.

Tangible fixed assets *continued*

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 initially measured at cost and subsequently stated at fair value at the reporting date as determined by the directors and supported by external valuations every year when the fair value can be reliably measured. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the income statement 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 income statement 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.

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.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement 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 over the lease term, 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 lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and with the exception of investment properties discussed above, the assets are included in property, plant and equipment and depreciated over their estimated useful lives. 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 less impairment and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Inventories

Raw materials and consumables consist of engineering spares and other consumable stores. Cost is calculated using the weighted average method. These are valued at the lower of cost and estimated selling price less costs to complete and sell.

Deferred income

Amounts received prior to the delivery of goods and services are recorded as deferred income and released to the income statement as the services are delivered or when the goods are delivered.

Accounting policies for the year ended 31 December 2018 *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, where material, to present value using a current, pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Restructuring
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 ongoing activities of the entity.

Home loss payment
A home loss payments provision is recognised where, an obligation arises during the year, as a result of a past event. The home loss payment provision is in respect of historic property purchases and related expenditures created in 2016 specifically in respect of Heathrow Expansion, following the Government's decision in October 2016.

Financial instruments
The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2018. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2018 and the Company is taking advantage of the exemption under the terms of FRS 102 from disclosing Section 11 and 12 disclosure requirements.

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets
All financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:
- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets
Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through profit and loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Accounting policies for the year ended 31 December 2018 *continued*

Financial instruments *continued*

Financial assets at fair value through other comprehensive income (FVOCI)

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell, and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'),
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'), and
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

Trade receivables, which generally have 14-day terms, are initially recognised and carried at the lower of their original invoiced value and recoverable amount. Balances are written off when the probability of recovery is remote.

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument.

In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

The Company assess impairment of trade receivables on a collective basis where they possess shared credit risk characteristics they have been grouped based on sector industry global default rates. Refer to Note 10 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Intercompany loans receivable

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

Such assets are held under a business model to hold and collect contractual cash flows and therefore meet the Solely Payments of Principal and Interest (SPPI) test. No embedded derivatives are currently recognised in these advances, and the amortised cost classification is not impacted. All intercompany advances are assessed for impairment under the IFRS9 "expected credit losses model" (ECL).

Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash in hand, repurchase agreements with an original maturity of three months or less and short-term deposits with an original maturity of three months or less. Short-term deposits with an origirial maturity of over three months are shown within current trade and other receivables.

Accounting policies for the year ended 31 December 2018 *continued*
Financial instruments *continued*
Financial liabilities and equity
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 other liabilities.

Classification and measurement of financial liabilities
The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit and loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

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 income statement 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 income statement.

Borrowings from Company 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. 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 income statement.

Debt issue costs
Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

Trade and other payables
Trade and other payables are non-interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

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.

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 income statement over the period of the borrowings using the effective interest method.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Derivative financial instruments are accounted for at fair value through profit and loss except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment.

To qualify for hedge accounting, the hedging relationship must meet all off the following requirements:
- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity hedges and the quantity of the hedging instrument that the entity actually use to hedge that quantity of hedged item

Accounting policies for the year ended 31 December 2018 *continued*
Financial instruments *continued*
Derivative financial instruments and hedging activities *continued*
The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Company designates certain derivatives as either:
- fair value hedges, where they hedge exposure to changes in the fair value of the hedged asset or liability; or
- cash flow hedges, where they hedge exposure to variability in cash flows that are attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months.

Novations of financial instruments
Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Group are transferred at fair value prevailing on that date.

Fair value hedge
All hedging relationships that were hedging relationships under IAS 39 at the 31 December 2017 reporting date meet the IFRS 9's criteria for hedge accounting at 1 January 2018 and are therefore regarded as continuing hedging relationships.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised in the income statement over the period to maturity.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When or if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives at fair value through profit and loss
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

When derivatives are designated in a hedge relationship, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their net amount in finance costs and finance income in the income statement.

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 Company's derivatives is updated monthly based on current market data.

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 acting as principal in relation to the services of the HAH 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%. Other services are paid for and sourced directly by Heathrow Airport Limited, either without the Company's involvement or on a pass through fixed mark up only basis (agent). 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.

Retirement benefit obligations
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, from 1 January 2015 the Company has recognised 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 income statement.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or curtailment occurs, the obligation and related plan asset are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying a discount rate to the net defined benefit liability or assets.

Re-measurements, comprising actuarial gains and losses, the effect of an asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to the income statement in subsequent periods.

Accounting policies for the year ended 31 December 2018 *continued*

Pension costs *continued*
The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit plan obligation (using a discount rate based on high-quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net benefit pension asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in future contributions.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Current and deferred taxation
The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is recognised in other comprehensive income.

Current tax 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.

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 income statement.

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
The Company financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency applying the spot exchange rate 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 income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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 2018. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2018 (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 2018

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

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. Judgement has been exercised in the year including in relation to:

- the assessment of assets in the course of construction, including expansion costs;
- assessing the useful economic life of an asset; and
- when a project moves from the research phase (where costs must be expensed in the current period) to the development phase and hence may be capitalised as the future economic benefit of the project becomes probable and the principles of FRS 102 Section 18 are considered and applied.

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 2018 financial statements based on an 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.

Lease classification
A lease contract is classified as an operating or a finance lease based on the substance of the contract and whether the Group or the lessor have the substantial risks and benefits incidental to the ownership of the leased asset.

The Group have a lease agreement with UK Power Networks Services Limited ('UKPNS' / 'Lessor') relating to the electricity distribution network at Heathrow. The lease expires in 2083. The group has determined this arrangement to be an operating lease rather than a finance lease under IAS 17. In this arrangement, the typical primary indicators of a finance lease under IAS 17 such as the lease term being for the major part of the economic life of the asset, the present value of the minimum lease payment amounts being substantially all of the fair value of the leased asset, appear to be met, largely due to the duration of the agreement. The substance of the agreement however results in significant risks and rewards associated with the ownership of electrical distribution network remaining with UKPNS. Other features within the contract that are more relevant in this lease determination include that the obligation to operate, maintain, insure and repair rests with the lessor rather than the Group. Accordingly, management believe an operating lease classification to be appropriate.

Key sources of estimation uncertainty

Investment properties
Investment properties are fair valued by CBRE Limited, Chartered Surveyors. The valuations are prepared in consideration of FRS 102 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. This market evidence also takes into account planned transaction and use of the property (for example the future expansion. Independent valuations are obtained for all investment properties. Management has reviewed the main assumptions underlying the valuation of Investment properties and the sensitivity analysis as included in Note 6.

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 income statement. 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 of the Company pension scheme is recorded as a net actuarial gain or loss and is reflected in the statement of comprehensive income. Further details are available in Note 15.

Notes to the Company financial statements for the year ended 31 December 2018

1 Segment information

As described in the accounting policies on page 38, the Company is organised into business units according to the nature of the services provided to Airport users. All revenue is derived from Aeronautical and commercial operations within the Airport and its boundaries.

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis.

The reportable segments derive their revenues from a number of sources including aeronautical, retail, other regulated charges and other products and services (including rail income), and this information is also provided to the Board on a monthly basis.

- Table (a) details total revenue from external customers for the year ended 31 December 2018 and is broken down into aeronautical, retail, ORCs and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is Adjusted EBITDA which is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.
- Table (b) details depreciation, amortisation and fair value adjustments.

Table (a)

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Segment revenue		
Aeronautical		
Landing charges	**482**	470
Parking charges	**67**	63
Departing charges	**1,196**	1,183
Total aeronautical revenue	**1,745**	1,716
Other regulated charges	**243**	240
Retail	**716**	658
Other revenue	**170**	214
Total revenue	**2,874**	2,828
Adjusted EBITDA		
Total adjusted EBITDA	**1,792**	1,752
Reconciliation to statutory information:		
Depreciation and amortisation	**(742)**	(691)
Operating profit (before certain re-measurements)	**1,050**	1,061
Fair value gain on investment properties (certain re-measurements)	**117**	149
Operating profit	**1,167**	1,210
Finance income	**193**	165
Finance costs	**(758)**	(571)
Profit before tax	**602**	804
Taxation charge	**(156)**	(155)
Profit for the year	**446**	649

Revenue of £884 million (2017: £901 million) was derived from a single external customer and has been included within the aeronautical and other segments.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

1 Segment information *continued*
Table (b)

	Year ended 31 December 2018		Year ended 31 December 2017	
	Depreciation & amortisation[1]	**Fair value gain[2]**	Depreciation & amortisation[1]	Fair value gain[2]
	£m	**£m**	£m	£m
Heathrow	**(742)**	**117**	(691)	149
Total	**(742)**	**117**	(691)	149

[1] Includes intangible amortisation charge of £27 million (2017: £40 million).
[2] Reflects fair value gains on investment properties only.

Non-current assets excluding derivative financial instruments were £16,638 million (2017: £16,568 million). There were no non-current assets held outside the UK (2017: £nil).

2 Operating costs
Operating costs comprise:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Employment		
Wages and salaries	**316**	304
Social security	**34**	33
Pension	**46**	39
Other staff related costs	**22**	23
Own staff costs capitalised	**(63)**	(50)
	355	349
Operational	**252**	243
Maintenance	**165**	164
Rates	**119**	124
Utilities	**88**	84
Other	**103**	112
Operating costs before depreciation and amortisation	**1,082**	1,076
Depreciation and amortisation		
Property, plant and equipment	**715**	651
Intangible assets	**27**	40
	742	691
Total operating costs	**1,824**	1,767

Rentals under operating leases

	Year ended 31 December 2018 £m	Year ended 31 December 2017 Restated[3] £m
Operating costs include:		
Land and buildings[1]	**14**	15
Other[2]	**31**	30
Total rentals under operating leases	**45**	45

[1] The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The amounts above are stated net of discounts.
[2] A significant portion of the operating rental costs relates to electricity supply equipment at the airport leased on agreement with UK Power Networks Services Limited ('UKPNS').
[3] The amount for 2017 is restated to reclassify the lease with UKPNS from 'land and buildings' to 'others'.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

2 Operating costs *continued*
Auditor's remuneration
Audit fees and non-audit fees for the SP Group for the current and preceding financial years were borne by the Company.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Fees payable to the Company's auditor for the annual audit of the:		
Company's ultimate parent	0.1	0.1
Company	0.1	0.1
Company's subsidiaries[1]	0.3	0.3
Total audit fees	0.5	0.5
Fees payable to the Company's auditor and their associates for other services specific to the Group		
Audit related assurance services	0.1	0.1
Other assurance services	0.1	0.1
Other services	0.1	0.1
Total non-audit fees	0.3	0.3
Total fees	0.8	0.8

[1] Fees payable to the Company's auditor for the audit of the Company's annual accounts was £62,000 (2017: £71,000).

Employee information
The Company has a monthly average of 6,743 employees (2017 restated: 6,435) who are all employed to provide services to the operation of the airport. The directors note that although the employees remain legally employed by LHR Airports Limited, the Company makes all employment decisions. Consequently, employee numbers for those providing services to the operation of the airport are reported in the financial statement of the Company and not in the financial statements of LHR Airports Limited.

Directors' remuneration

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Aggregate emoluments[1,2]	3,626	4,150
Share in success scheme	3,536	-
Value of Company pension contributions	30	60
Termination benefits	-	301
	7,192	4,511

[1] For the year ended 31 December 2018 salaries and benefits include salaries, allowances, Directors' fees, Company pension contributions, accrued bonuses and amounts payable under long-term incentive plans ('LTIP').
[2] £1,274,000 of bonus was paid in cash in 2018 (2017: £966,000).

John Holland-Kaye and Javier Echave 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 2018 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.

Directors participate 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 two, three or four. Directors remuneration in 2018 includes £324,000 in respect of the 2016 three year plan after certain EBITDA and Return on equity targets were met over the three years from 2016 to 2018, which will be paid in 2019.

Directors remuneration in 2018 also includes £3,536,000 in respect of the Share in Success schemes. The Share in Success schemes were available to all colleagues at Heathrow and were introduced in 2015 to reward colleagues in the event of a successful Q6 Regulatory Period. The targets were spread across the four strategic priorities of Beat the Plan, Transform Customer Service, Win support for Growth, and 'Mojo' and included various metrics and KPIs which were met or partially met over the four year period of the scheme. Although the achievement against overall targets, and hence payment, was not reasonably certain until the end of 2018, the total amount can be attributed to each year.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

2 Operating costs *continued*
***Directors' remuneration** continued*

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Highest paid director's remuneration		
Aggregate emoluments[1,2]	829	892
Share in Success scheme	915	-
	1,744	892

[1] For the year ended 31 December 2018 salaries and benefits include salaries, allowances, directors' fees, Company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').
[2] £271,000 of bonus was paid in cash in 2018 (2017: £238,000).

During the year, the highest paid director had no retirement benefits accruing under a defined contribution scheme and no retirement benefits accruing under a defined benefit scheme. The highest paid director 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 two, three or four years. Directors remuneration in 2018 includes £91,000 in respect of the 2016 three year plan after certain EBITDA and Return on equity targets were met over the three years from 2016 to 2018, which will be paid in 2019.

The highest paid director's remuneration in 2018 also includes £915,000 in respect of the Share in Success schemes. The Share in Success schemes were available to all colleagues at Heathrow and were introduced in 2015 to reward colleagues in the event of a successful Q6 Regulatory Period. The targets were spread across the four strategic priorities of Beat the Plan, Transform Customer Service, Win support for Growth, and 'Mojo' and included various metrics and KPIs which were met or partially met over the four year period of the scheme. Although the achievement against overall targets, and hence payment, was not reasonably certain until the end of 2018, the total amount can be attributed to each year.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Number of directors who are members of a:		
Defined benefit pension scheme	-	-
Defined contribution pension scheme	4	4

No directors (2017: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2017: none) were received or became receivable under long-term incentive plans.

3 Financing
(a) Net finance costs before certain re-measurements

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Finance income			
Interest receivable from group undertakings[1]		192	163
Interest on deposits		1	2
		193	165
Finance costs			
Interest payable to group undertakings[2]		(676)	(735)
Interest on bank borrowings		(23)	(20)
Facility fees and other charges		(7)	(7)
Net pension finance costs		(4)	(2)
Unwinding of discount		-	(1)
		(710)	(765)
Less: capitalised borrowing costs[3]	5	50	46
		(660)	(719)
Net finance costs before certain re-measurements		(467)	(554)

[1] These amounts relate primarily to interest accrued on balances due from Heathrow (SP) Limited (Note12).
[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.
[3] 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 5.66% (2017: 5.37%) to expenditure incurred on such assets.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

3 Financing *continued*
(b) Fair value (loss)/gain on financial instruments

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Interest rate swaps	89	67
Index-linked swaps	(187)	81
Fair value (loss)/gain on financial instruments	**(98)**	148
Net finance costs	**(565)**	(406)

4 Taxation

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
UK corporation tax		
Current tax charge at 19% (2017: 19.25%)	(90)	(59)
Group relief payable	(48)	(49)
Over provision in respect of prior years	5	-
Deferred tax		
Current year charge	(14)	(68)
Prior year (charge)/credit[1]	(9)	21
Taxation charge for the year	**(156)**	(155)

[1] Prior year charge for 2018 includes a £2m adjustment in relation to accelerated capital allowances and a £7m adjustment in relation to revaluations of property, plant and equipment.

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 2018 £m	Year ended 31 December 2017 £m
Profit before tax (before certain re-measurements)	**583**	507
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 19% (2017: 19.25%)	(111)	(98)
Adjustments in respect of current income tax of previous years	5	-
Adjustments in respect of deferred income tax of previous years[1]	(2)	12
Net non-deductible expenses	(40)	(33)
Tax charge before certain re-measurements	**(148)**	(119)
Tax charge on certain re-measurements[2]	(8)	(36)
Taxation charge for the year	**(156)**	(155)

[1] Prior year adjustment in 2018 relates primarily to accelerated capital allowances and revaluations of property, plant and equipment.
[2] This consists of the tax impact arising from fair value gains on investment property revaluations and fair value gains/losses on financial instruments, along with prior year adjustments for revaluations of property, plant and equipment.

The total tax charge recognised for the year ended 31 December 2018 was £156 million (2017: £155 million). Based on a profit before tax for the year of £602 million (2017: £804 million), this results in an effective tax rate of 25.9% (2017: 19.3%).

The total tax charge before certain re-measurements for the year ended 31 December 2018 was £148 million (2017: £119 million) which includes a £2 million prior year deferred tax charge (2017: £12 million prior year deferred tax credit adjustment) relating primarily to accelerated capital allowances and non-deductible expenses. Based on a profit before tax and certain re-measurements of £583 million (2017: £507 million), this results in an effective tax rate of 25.4% (2017: 23.5%). The tax charge is more than implied by the statutory rate of 19% (2017: 19.25%) primarily due to non-deductible expenses and because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

In addition, there was an £8 million tax charge (2017: £36 million tax charge) reflecting the tax impact arising from fair value gains on investment property and property, plant and equipment revaluations and fair value gains / losses on financial instruments, along with any associated prior year adjustments.

4 Taxation *continued*

The headline UK corporation tax rate was 20% up until 1 April 2017, when it reduced to 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of these rate reductions has been reflected in the deferred tax balances in the financial statements.
In November 2017 the Finance (No.2) Act 2017 received Royal Assent, giving effect to a new interest deductibility regime. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). As a result of the new legislation, from 1 April 2017, interest deductions are limited to 30% of tax based EBITDA, with the ability to apply a group ratio rule (GRR) and a public infrastructure exemption (PIE). Heathrow is to a large extent protected from the 30% of tax based EBITDA cap therefore no material interest disallowance has been reflected in the 2018 tax charge (2017: less than £0.1 million).

In the November 2018 Budget the Government announced a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property will be available where the construction contract is entered on or after 29 October 2018. Relief will be provided on eligible construction costs at an annual rate of 2% on a straight-line basis, effectively giving tax relief over a 50-year period. Heathrow is likely to benefit in future years from tax relief on expenditure which would not be eligible under current rules.

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

5 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2017		10,860	1,745	827	210	1,412	1,157	16,211
Additions		-	-	-	-	-	682	682
Borrowing costs capitalised	3	-	-	-	-	-	46	46
Disposals		(78)	(10)	(25)	(5)	(7)	-	(125)
Transfer to intangible assets	7	-	-	-	-	-	(77)	(77)
Transfer to completed assets		495	331	89	-	1	(916)	-
31 December 2017		**11,277**	**2,066**	**891**	**205**	**1,406**	**893**	**16,738**
Additions		-	-	-	-	-	**768**	**768**
Borrowing costs capitalised	3	-	-	-	-	-	**50**	**50**
Disposals		**(2)**	**(1)**	**(11)**	-	**(15)**	-	**(29)**
Transfer to intangible assets	7	-	-	-	-	-	**(5)**	**(5)**
Transfer to investment properties	6	-	-	-	-	-	**(1)**	**(1)**
Transfer to completed assets		**374**	**(112)**	**260**	**24**	**43**	**(589)**	-
31 December 2018		**11,649**	**1,953**	**1,140**	**229**	**1,434**	**1,116**	**17,521**
Depreciation								
1 January 2017		(3,519)	(420)	(380)	(64)	(522)	-	(4,905)
Depreciation charge		(469)	(53)	(78)	(9)	(42)	-	(651)
Disposals		78	10	25	5	7	-	125
31 December 2017		**(3,910)**	**(463)**	**(433)**	**(68)**	**(557)**	-	**(5,431)**
Depreciation charge		**(489)**	**(44)**	**(102)**	**(9)**	**(71)**	-	**(715)**
Disposals		**3**	**1**	**10**	-	**15**	-	**29**
31 December 2018		**(4,396)**	**(506)**	**(525)**	**(77)**	**(613)**	-	**(6,117)**
Net book value								
31 December 2018		**7,253**	**1,447**	**615**	**152**	**821**	**1,116**	**11,404**
31 December 2017		7,367	1,603	458	137	849	893	11,307

Other land and buildings
Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2018 of £11 million (2017: £11 million).

5 Property, plant and equipment *continued*

Assets in the course of construction
The major balances in assets in the course of construction include Baggage programme projects to install the latest generation of Baggage screening machines, the Asset Management programme to replace assets at the end of their useful life, and the Airport resilience programme including tunnels and airfield improvements.

Accelerated Depreciation
Depreciation in 2018 includes accelerated depreciation on Heathrow Express rolling stock (£28 million accelerated depreciation in rail assets) and the Temporary flight connection centre (£13 million accelerated depreciation in terminal complexes) of £41 million (2017: £nil).

Borrowing costs capitalised
During the year ended 31 December 2018, borrowing costs of £50 million were capitalised (2017: £46 million). Capitalised borrowing costs were calculated by applying an average interest rate of 5.66% (2017: 5.37%) to expenditure incurred on qualifying assets.

A tax deduction of £50 million (2017: £46 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets

Regulatory asset base (RAB)
RAB at Dec 2018 was £16,200 million (2017: 15,786 million).

6 Investment properties

	Airport investment properties £m
Valuation	
1 January 2017	2,200
Additions	1
Investment property fair value movements	149
31 December 2017	**2,350**
Additions	4
Transfers from property, plant and equipment	1
Investment property fair value movements	117
31 December 2018	**2,472**

Investment properties were valued at fair value at 31 December 2018 by CBRE Limited, Chartered Surveyors (2017: CBRE Limited, Chartered Surveyors).

All valuations were prepared in consideration of 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. The fair value measurement hierarchy used in calculating fair value (refer to Note 13) has been classified as level 3. The higher the discount rate and expected vacancy rate, the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

The Investment Property portfolio includes Car Parks (for passengers and employees) and Maintenance Hangars, which together account for 71% (2017: 67%) of the fair value of the investment property portfolio at 31 December 2018. As stated above, the valuations are based on assumptions relevant to the type of property being valued. Management has reviewed the assumptions, as described in the sensitivity analysis below prepared by CBRE limited, using a wider range of sensitivities than the prior year due to uncertainties identified in the UK property market as a result of Brexit.

	Increase/(decrease) in asset valuation
Car parks – Base revenue	
+2.0% pa	**36**
-2.0% pa	**(36)**
Car parks – Revenue growth	
+0.5% pa	**87**
-0.5% pa	**(83)**
Maintenance Hangars – Net initial yield	
+0.5% pa	**49**
-0.5% pa	**(64)**

6 Investment properties *continued*
The sensitivities analysis above has been determined based on reasonably possible changes to the respective assumptions, holding all other assumptions constant.

The methodology used in arriving at the incremental changes shown above is consistent with that used for the valuation of car parks and maintenance hangars within the Investment Property portfolio at the year end.

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

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 less than £1 million (2017: less than £1 million) for which a similar amount is included within operating costs.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £76 million (2017: £74 million). Direct operating expenses arising on the investment property, all of which generated rental income in the period, amounted to £1 million (2017: £1 million). The Group has entered into contracts for the maintenance of its investment property, which will give rise to an annual charge of less than £1 million (2017: less than £1 million).

Historical cost
The historical cost of investment properties and land held for development as at 31 December 2018 was £664 million (2017: £664 million).

7 Intangible assets

	£m
Cost	
1 January 2017	252
Additions	17
Transfers from property, plant and equipment	77
Disposals	(16)
31 December 2017	**330**
Additions	**20**
Transfers from property, plant and equipment	**5**
Disposals	**(2)**
31 December 2018	**353**
Amortisation	
1 January 2017	(130)
Charge for the year	(40)
Disposals	15
31 December 2017	**(155)**
Charge for the year	**(27)**
Disposals	**2**
31 December 2018	**(180)**
Net book value	
31 December 2018	**173**
31 December 2017	175

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 four and fifteen years. Amortisation for the year has been charged through operating costs.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

8 Investment in subsidiary

	31 December 2018 £m	31 December 2017 £m
Cost at 1 January and 31 December	42	42

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. The registered address of the company is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

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 statement of financial position. Investments are held as fixed assets and are stated at cost less impairment and reviewed for impairment if there are indications that the carrying value may not be recoverable.

9 Inventories

	31 December 2018 £m	31 December 2017 £m
Raw materials and consumables	13	11

The total amount of inventories consumed in the year was £7 million (2017: £6 million). There is no material difference between the statement of financial position value of inventories and their replacement cost.

10 Trade and other receivables

	31 December 2018 £m	31 December 2017 £m
Non-current		
Amounts owed by group undertakings – interest bearing[1]	2,520	2,676
Less: provision for impairment	(3)	-
Prepaid debt fees[2]	4	3
Prepayments	16	15
	2,537	2,694
Current		
Trade receivables	120	101
Accrued income	114	100
Total trade receivables	234	201
Less: provision for impairment	(4)	(2)
Trade receivables	230	199
Prepayments	33	24
Amounts owed by group undertakings – interest free[3]	3	-
Interest receivable from group undertakings[4]	121	357
Other receivables	21	18
	408	598
Total trade and other receivables	2,945	3,292

[1] Amounts owed by group – interest bearing represents a loan receivable from Heathrow (SP) Limited. It has a fixed interest rate of 7.57% pa and is repayable on 18 August 2010.

[2] Prepaid debt fees largely relate to financing fees paid on facilities not yet drawn and are amortised over the term of the facility.

[3] Amounts owed by group undertakings – interest free largely relate to external payments received by LHR Airports Limited under the Shared Service Agreement on behalf of Heathrow that were paid during the year 2016.

[4] Interest receivable from group undertakings relate primarily to interest accrued on balances due from Heathrow (SP) Limited.

10 Trade and other receivables *continued*

The fair value of trade and other receivables are not materially different from the carrying value.

Trade receivables are non-interest bearing and are generally on 14-day terms. No collateral is held as security.

As at 31 December 2018, trade receivables of £88 million (2017: £87 million) were fully performing. Trade receivables of £32 million (2017: £14 million) were past due. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2018 £m	31 December 2017 £m
Fully performing	88	87
Past due but not impaired:		
Not impaired but overdue by less than 30 days	13	4
Not impaired but overdue by between 30 and 60 days	7	-
Not impaired but overdue by more than 60 days	1	3
	21	7
Overdue by more than 90 days	11	7
Total trade receivables	120	101

	£m
1 January 2017	1
Provision for trade receivables	1
31 December 2017	2
Change in accounting standard – IFRS 9	2
1 January 2018	4
Impairment of trade receivables (calculated under IFRS 9)	-
1 January 2018 restated and 31 December 2018	4

As at 31 December 2018, trade receivables were considered for impairment under IFRS 9 resulting in an additional £2 million (2017: £nil million). During the period, the company made £nil write-offs of trade receivables (2017: £2 million) with all remaining amount expected to be fully recovered. The individual impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included in 'general expenses' within 'operating costs' in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery, with additional impairment for forward looking ECL and probable default.

IFRS 9 also required the Company to recognise a provision for impairment against amounts owed by group undertakings of which an additional £3 million (2017: £3 million) was provided for. These amounts are expected to be fully recoverable.

The Company is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 16.

11 Cash and cash equivalents and term deposits

	31 December 2018 £m	31 December 2017 £m
Cash at bank and in hand	33	39
Short-term deposits	555	194
Cash and cash equivalents	588	233
Term deposits	120	12
Cash and cash equivalents and term deposits	708	245

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates to their book value. Heathrow Airport Limited holds investments in term deposits, which have an original maturity of more than three months.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

12 Borrowings

	31 December 2018 £m	31 December 2017 £m
Current		
Secured		
Bank loans	**17**	33
BLA advances from Heathrow Funding Limited	**250**	957
Total current (excluding interest payable)	**267**	990
Interest payable – external	**5**	5
Interest payable – owed to group undertakings	**165**	173
Total current	**437**	1,168
Non-current		
Secured		
BLA advances from Heathrow Funding Limited	**11,280**	10,736
Bank loans	**12**	29
Class A1 term loan due 2020	**417**	416
Class A2 term loan due 2024	**100**	-
Term note – 3.770% £100 million due 2026	**100**	100
Term note – 2.630% £80 million due 2030	**80**	80
Term note – 3.160% £90 million due 2032	**90**	89
Term note – 2.430% £80 million due 2033	**80**	80
Term note – 2.970% £70 million due 2035	**70**	70
Term note – 2.610% £145 million due 2036	**145**	-
Term note – 2.510% £20 million due 2037	**20**	20
Total non-current	**12,394**	11,620
Total borrowings	**12,831**	12,788

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

	£m	£m
One to two years	**820**	266
Two to five years	**2,694**	2,691
Over five years	**8,880**	8,663
	12,394	11,620

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 £771 million (2017: £440 million), net of transaction costs. In the same period, the Company made repayments of £910 million (2017: £856 million). The effective interest rate on the BLA advances varies between 0.55% and 7.39% (2017: 0.55% and 7.39%).

Facilities

All of the facilities are carried at amortised cost.

The Company had £1,350 million undrawn committed borrowing facilities available as at 31 December 2018 (2017: £1,250 million). In addition, as at 31 December 2018, there was an overdraft limit up to a maximum net overdraft balance of £10 million (2017: £10 million).

12 Borrowings *continued*

Securities and guarantees

The Company, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements.

BAA Pension Trust Company Limited, as a trustee from time to time of the BAA Pension Scheme, is a Borrower Secured Creditor and ranks equally in an amount up to £284 million with senior (Class A) debt.

The Company and Heathrow Express Operating Company Limited have provided a guarantee and indemnity in favour of Lloyds Bank plc (in its capacity as the Borrower Account Bank) in respect of each other's obligations under the Borrower Account Bank Agreement and associated financing agreements.

13 Derivative financial instruments

31 December 2018	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	11	-	-	-
Interest rate swaps	204	-	(5)	(5)
Index-linked swaps	124	-	(15)	(15)
Total current	339	-	(20)	(20)
Non-current				
Interest rate swaps	2,402	-	(389)	(389)
Index-linked swaps	6,231	9	(945)	(936)
Total non-current	8,633	9	(1,334)	(1,325)
Total derivative financial instruments	8,972	9	(1,354)	(1,345)

31 December 2017	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	5	-	-	-
Interest rate swaps	400	-	(3)	(3)
Index-linked swaps	-	-	-	-
Total current	405	-	(3)	(3)
Non-current				
Foreign exchange contracts	3	-	-	-
Interest rate swaps	2,606	-	(482)	(482)
Index-linked swaps	4,081	-	(610)	(610)
Total non-current	6,690	-	(1,092)	(1,092)
Total derivative financial instruments	7,095	-	(1,095)	(1,095)

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

As at 31 December 2018, the total notional amount of back-to-back interest rate swaps was £2,606 million which had a mark-to-market liability of £394 million (2017: £3,006 million notional with a mark-to-market liability of £485 million).

Index-linked swaps

Index linked swaps have been entered into in order to economically hedge debt instruments and RPI linked revenue and the Regulated Asset Base ('RAB'). 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 £6,355 million which had a mark-to-market net liability of £951 million (2017: £4,081 million notional with a mark-to-market net liability of £610 million).

13 Derivative financial instruments *continued*

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, which is the level at which financial risks for the Company are managed. The treasury policies of the Heathrow Airport Holdings 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.

14 Deferred income tax liabilities

The net movement on the deferred income tax account is as follows:

	2018	2017
1 January	**387**	352
Charged to income statement	**23**	47
Charged/(credited) to other comprehensive income	**26**	(12)
31 December	**436**	387

Analysis of the deferred tax balance is as follows:

	£m	£m
Excess of capital allowances over depreciation	**331**	319
Retirement benefit obligations	**-**	(28)
Other timing differences	**(3)**	(7)
Derivatives	**(144)**	(125)
Revaluation of investment property to fair value	**214**	197
Tax on rolled over gains	**8**	8
Revaluations of property, plant and equipment	**30**	23
Deferred income tax liability	**436**	387

Provision has been made for deferred taxation in accordance with FRS 102. Of the £436 million liability at 31 December 2018, we expect a £3 million increase in the next 12 months (excluding any reversal arising from future fair value adjustments, as these cannot be estimated). The net reversal of deferred tax assets expected to occur in the period ended 31 December 2019 is £12m. The reversal relates largely to short term timing differences in relation to financial instruments, capitalised interest and post employment benefits.

The headline UK corporation tax rate was 20% up until 1 April 2017, when it reduced to 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of these rate reductions has been reflected in the deferred tax balances in the financial statements.

15 Retirement benefit obligations

The Company has applied the requirements of the standard FRS 102 section 28 'Post-Employment Benefits' for the year ended 31 December 2018. The total cost of defined contribution pension arrangements is fully expensed as employment costs as per section 28.13(b).

LHR Airports Limited, which is an indirect subsidiary of HAH Group (the 'Group'), 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. Following the decision of the directors in 2015 to re-assess the Company's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Company, should act as principal in relation to these schemes. As a result, the Company now recognises retirement benefit obligations within its financial statements.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

15 Retirement benefit obligations *continued*

The Company's primary UK defined benefit pension fund is a self-administered defined benefit scheme (the 'BAA Pension Scheme' or the 'Scheme') now closed to new employees. As required by UK pension law, there is a Pension Trustee Board that, together with LHR Airports Limited, is responsible for governance of the Scheme. The employer's contributions are determined based on triennial valuations conducted on assumptions determined by the Trustee and agreed by LHR Airports Limited. The defined benefit obligation or surplus is calculated quarterly by independent actuaries.

LHR Airports Limited operates a defined contribution pension scheme for all employees who joined the Company after 15 June 2008. The Company has no further payment obligations once the contributions have been paid. The total cost of defined contribution pension arrangements is fully expensed as employment costs.

LHR Airports Limited also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the rules of the Scheme. In addition, LHR Airports Limited provides post-retirement medical benefits to certain pensioners

Amounts arising from pensions related liabilities in the Company's financial statements
The following tables identify the amounts in the Company's financial statements arising from its pension related liabilities.

Further details of each scheme (except defined contribution schemes) are within sections a) and b).

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Employment costs:		
Defined contribution schemes	13	10
BAA Pension Scheme	34	29
	47	39
Finance charge - BAA Pension Scheme	3	1
Finance charge - Other pension and post- retirement liabilities	1	-
Total pension costs	51	40

Other comprehensive income – gain/(loss) on pension and other pension related liabilities

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
BAA Pension Scheme	141	(65)
Unfunded schemes	3	1
Actuarial gain/(loss) recognised before tax	144	(64)
Tax (charge)/credit on actuarial movement	(26)	10
Actuarial gain/(loss) recognised after tax	**118**	(54)

Statement of financial position – net defined benefit pension (deficit) / surplus and other pension related liabilities

The net deficit or surplus of the LHR Airports Limited retirement benefit schemes, being the BAA Pension Scheme, Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefit Scheme, are recognised within non-current assets or non-current liabilities if the pension schemes are in a surplus or deficit position respectively. The net surplus or deficit is presented below for the current and previous four financial years.

15 Retirement benefit obligations *continued*
Amounts arising from pensions related liabilities in the Company's financial statements *continued*
Statement of financial position – net defined benefit pension (deficit) / surplus and other pension related liabilities continued

	2018	2017	2016	2015	2014
	£m	£m	£m	£m	£m
Fair value of plan assets	**3,869**	4,085	3,975	3,288	3,274
Benefit obligation	**(3,841)**	(4,209)	(4,054)	(3,184)	(3,473)
Surplus/(deficit) in BAA Pension Scheme	**28**	(124)	(79)	104	(199)
Unfunded pension obligations	**(28)**	(29)	(29)	(22)	(24)
Post-retirement medical benefits	**(4)**	(5)	(6)	(6)	(6)
Deficit in other pension related liabilities	**(32)**	(34)	(35)	(28)	(30)
Net (deficit)/surplus in pension schemes	**(4)**	(158)	(114)	76	(229)
Company share of net (deficit)/surplus in pension schemes	**(4)**	(158)	(114)	76	(229)

(a) BAA Pension Scheme
The BAA Pension Scheme is a funded defined benefit scheme with both open and closed sections. The Scheme closed to employees joining the Company after 15 June 2008. The Scheme's assets are held separately from the assets of the HAH Group and are administered by the trustee.

The value placed on the Scheme's obligations as at 31 December 2018 is based on the full actuarial valuation carried out at 30 September 2015. This has been updated at 31 December 2018 by KPMG LLP to take account of changes in economic and demographic assumptions, in accordance with FRS 102. The Scheme assets are stated at their bid value at 31 December 2018. As required by FRS 102, the Company recognises re-measurements as they occur in the statement of comprehensive income.

Bulk Purchase Annuity Policy
On 24 May 2018, the BAA Pension scheme entered into an insurance annuity contract with Legal and General in respect of a proportion of its current pensioners. The annuity policy is recognised as a plan asset with a value equal to the value of the underlying obligations.

Guaranteed Minimum Pension ('GMP') Equalisation
A past service cost of £5.3 million has been recognised in the income statement, reflecting an estimate of the impact of allowing for the equalization of GMPs. This follows a case brought before the High Court by the Trustees of the Lloyds Bank Pension Schemes, judgement of which was delivered on October 2018.

15 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

Analysis of movements in plan assets and defined benefit obligations

	2018 £m	2017 £m
Fair value of plan assets at 1 January	**4,085**	3,975
Income statement:		
Interest income on plan assets	**103**	108
Administration costs	**(3)**	(3)
Other comprehensive income:		
Re-measurement gain/(loss) (return on assets in excess of interest income on plan assets)	**(212)**	75
Loss due to Bulk Purchase annuity	**(23)**	-
Cash flows:		
Employer contributions (including benefits paid and reimbursed)	**48**	50
Members' contributions	**5**	5
Benefits paid (by fund and Group)	**(134)**	(125)
Fair value of plan assets at 31 December	**3,869**	4,085
Defined benefit obligation at 1 January	**(4,209)**	(4,054)
Income statement:		
Current service cost	**(26)**	(26)
Past service cost	**(5)**	-
Interest cost	**(106)**	(109)
Other comprehensive income:		
Re-measurements of defined benefit obligation:		
arising from changes in financial assumptions	**376**	(140)
Cash flows:		
Members' contributions	**(5)**	(5)
Benefits paid (by fund and Group)	**134**	125
Defined benefit obligation at 31 December	**(3,841)**	(4,209)

The net actuarial gain before tax of £141 million (2017: £65 million net loss) resulted from a gain in change in assumptions of £376 million (2017: £140 million loss), partially offset by the asset loss of £235 million over the year, which includes a £23 million loss due to the Bulk Purchase Annuity transacted in Q2 (2017: £75 million return on assets in excess of the income statement credit).

The actuarial gain on change in financial assumptions is mainly attributable to an increase in the net yield of 0.45% over the year, based on a single equivalent discount rate assumption of 3.00% and an RPI inflation assumption of 3.40%. The discount rate used has increased from 2.55% in 2017 to 3.00% in 2018 and is derived from the yield on 'high quality corporate bonds' of duration consistent with liabilities of the scheme. The discount rate is based on a full yield curve approach, a 'single agency' approach where the yield curve is constructed from the Merrill Lynch corporate bond universe with at least one AA rating from the main ratings agencies. There were no changes attributable to demographic assumptions.

15 Retirement benefit obligations *continued*
(a) BAA Pension Scheme *continued*

Analysis of fair value of plan assets

	31 December 2018 £m	31 December 2017 £m
Fair value of plan assets[1]		
Equity	**607**	540
Property	**139**	172
Bonds	**1,127**	1,405
Cash	**118**	59
LDI	**1,152**	1,579
Other	**726**	330
Total fair value of plan assets	**3,869**	4,085

[1] Included in the fair value of plan assets above is £958 million (24.8%) valued at publicly quoted market price.

At 31 December 2018, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,152 million (30% of the asset holding at 31 December 2018). The purpose of the Scheme entering into this mandate is to reduce asset / liability mismatch risk. At 31 December 2017, the largest single category of investment was an LDI mandate, with value of £1,579 million (39% of the asset holding at 31 December 2017).

LDI holdings are portfolios of interest rate and inflation derivatives which are intended to protect the Scheme from movements in interest rates and inflation, so that the fair value of this element of the portfolio moves in the same way as the fair value of Scheme's obligations.

Analysis of financial assumptions
The financial assumptions used to calculate Scheme assets and liabilities under FRS 102 were:

	31 December 2018 %	31 December 2017 %
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	**2.65**	2.65
Increase to pensions in payment:		
Open section	**3.30**	3.30
Closed section	**3.40**	3.40
Discount rate	**3.00**	2.55
Inflation assumption	**3.40**	3.40

The assumptions relating to longevity underlying the pension liabilities at the reporting date are in line with those adopted for the 2015 actuarial funding valuation and are based on standard actuarial mortality tables with an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 27.2 years (2017: 27.1 years) and 29.5 years (2017: 29.4 years) from age 60 for a 40 year old male non-pensioner.

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.

Interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

As required under FRS 102, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

15 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

Sensitivity analysis of significant assumptions

The following tables present a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected, before and after tax, by changes in the relevant actuarial assumptions that were reasonably possible at the reporting date.

The standard market practice is to include sensitivity to a change of between 0.1% and 1%. Therefore 0.5% is considered to be reasonable and in line with market practice.

The range of long term inflation and long dated AA bonds over 2018 were c.0.2% and 0.4% respectively, so the choice of 0.5% is deemed to be acceptable as pension sensitivities are aligned to historical trends.

	31 December 2018 (Decrease) / increase in defined benefit obligation	
	Before tax £m	After tax £m
Discount rate		
+0.50% discount rate	(368)	(302)
-0.50% discount rate	426	350
Inflation rate		
+0.50% inflation rate	345	283
-0.50% inflation rate	(309)	(254)
Mortality		
Increase in life expectancy by one year	134	110

The sensitivity analysis is based on a change in one assumption while holding all other assumptions constant, therefore interdependencies between assumptions are excluded, with the exception of the inflation rate sensitivity which also impacts salary and pension increase assumptions. The analysis also makes no allowance for the impact of changes in gilt and corporate bond yields on asset values. The methodology applied is consistent to that used to determine the recognised pension liability.

The total contributions by the Company to the defined benefit pension scheme in 2019 are expected to be £48 million. The levels of contributions are based on the current service costs and the expected cash flows of the defined benefit pension scheme. The Company estimates the present value of the duration of the Scheme liabilities on average fall due over 21 years (2017:21 years).

Management believes that the scheme has no significant plan specific or concentration risks.

(b) Other pension and post-retirement liabilities

LHR Airports Limited also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the Scheme rules. The unfunded pension obligations amount to £28 million (2017: £29 million) and are included in the statement of financial position.

In addition, LHR Airports Limited provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement is £4 million (2017: £5 million) and this is also included in the statement of financial position. The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

16 Provisions

	Reorganisation costs £m	Home loss payment £m	Other £m	Total £m
Current	6	-	-	6
Non-current	-	7	1	8
1 January 2018	**6**	**7**	**1**	**14**
Charged to income statement	6	-	-	6
Utilised	(5)	-	-	(5)
Released to income statement	(1)	-	-	(1)
31 December 2018	**6**	**7**	**1**	**14**
Current	6	7	-	13
Non-current	-	-	1	1
31 December 2018	6	7	1	14

Reorganisation costs
These are costs associated with the Company's reorganisation programmes primarily relating to restructuring processes designed to reduce the size and costs of overhead functions. The utilisation and release of the provision relates to the 2017 voluntary severance scheme in engineering and baggage operational areas. The charge relates to a provision established in 2018 for voluntary severance in Airport Operations and Security. The provision will be fully utilised in 2019.

Home loss payments
Between 2005 and 2011, the Company entered into a number of agreements to buy residential properties in the original third runway blight area. The purchase price for these properties included a deferred 10% payment ("deferred payment") which will be settled in cash when planning consent is obtained, expected to be around 2021. In October 2016, the Government announced its decision in favour of expansion at Heathrow and following board approval, a public statement was issued by the Company stating its intention to apply for planning consent, making it probable that the Company will be required to pay the deferred payment in the future. As a result, in the year ended 31 December 2016, the Company created a provision for the deferred payment equal to the amount it expects to pay of £7 million which is expected to be utilised in 2019.

Other
These provisions relate to insurance claims liability from incidents which occurred at Heathrow airport and are not expected to be paid in next twelve months.

17 Trade and other payables

	31 December 2018 £m	31 December 2017 £m
Non-current		
Preference shares	**23**	23
Other payables	**7**	8
	30	31
Current		
Deferred income	**39**	33
Trade payables[1]	**166**	170
Other tax and social security	**8**	8
Group relief payable	**48**	49
Other payables	**11**	10
Capital payables	**135**	134
Amount owed to group undertakings – interest free[2]	**56**	54
Amount owed to group undertakings – interest bearing[3]	**90**	37
	553	495

[1] Trade payables are non-interest bearing and are 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 Shared Services Agreement on behalf of the Company.
[3] Amounts owed to group undertakings – interest bearing relates to an interest bearing loan with Heathrow Express Train Operating Company Limited with an interest rate of Bank of England base rate + 1.5%

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

18 Share capital
Called up, allotted and fully paid

	Note	Number	£m
Ordinary shares			
1 January 2018		2,802,236,985	10
Bonus issue[1]	21	363,222,735,779	1,271
Capital reduction[2]	21	-	(1,244)
Share restructuring[3]		(365,988,370,267)	-
31 December 2018		**36,602,497**	**37**

[1] On 20 November 2018, the Company capitalised £1,271,279,575 of unrealised profits by a bonus issue of 363,222,735,779 ordinary shares of 0.35p each.
[2] On the same date, the Company reduced its nominal share capital from 0.35p to 0.01p, realising £1,244,484,907 which in law creates a distributable reserve.
[3] On 30 November 2018, the Company consolidated its existing capital structure by converting 366,024,972,764 ordinary shares of 0.01p into 36,602,497 ordinary shares of £1.

Preference shares[1]	Number	£
1 January and 31 December 2018		
21,960,014 preference shares – irredeemable of £0.01 each	21,960,014	219,600

[1] Recorded within creditors (refer to Note 17).

19 Dividends paid
During the year ended 31 December 2018, the Company paid dividends of £483 million to Heathrow (AH) Limited being £112 million (£0.04 per share) on 21 February 2018, £98 million (£0.04 per share) on 27 June 2018, £114 million (£0.04 per share) on 23 July 2018 and £159 million (£4.34 per share) on 20 December 2018. The dividend paid on 20 December 2018 follows the restructuring of the Company's ordinary share capital as described in note 18. (2017: £277 million (£0.10 per share) comprising £84 million (£0.03 per share) on 23 February 2017 and £193 million (£0.07 per share) on 20 December 2017).

20 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 2018		31 December 2017	
	Land and buildings £m	Other £m	Land and buildings £m	Other restated £m
Within one year	14	25	13	19
Within two to five years	41	106	44	97
After five years	4	481	5	480
	59	612	62	596

The Company leases various offices, warehouses, plant and machinery under non-cancellable operating lease agreements.

A significant portion of the commitments classified as 'other' relate to the 'UKPNS Lease'. 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. This is because the component parts within the distribution network will be replaced throughout the arrangement.

In prior year, the disclosure of the UKPNS Lease commitment was discounted at the Company's incremental borrowing rate as the estimated future cashflow included the year on year expected change in RPI. This approach was adopted as, due to the unusual and long-term nature of the lease, management believed it better represented the present value of the expected total cost of the lease. In the current year, the total commitment under the lease reflects the undiscounted cash flow and exclude the expected future RPI impact to more closely align with the requirements of IAS 17. The 2017 disclosure is restated accordingly.

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

20 Commitments and contingent liabilities *continued*
Non-cancellable operating lease commitments – Company as a lessor
Total future minimum rentals receivable as at the year end are as follows:

	31 December 2018 Land and buildings £m	31 December 2017 Land and buildings £m
Within one year	88	95
Within two to five years	225	243
After five years	1,698	1,711
	2,011	2,049

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 2018 £m	31 December 2017 £m
Contracted for, but not accrued:		
Baggage systems	77	155
Terminal restoration and modernisation	174	101
IT projects	20	21
Capacity optimisation	20	23
Other projects	35	23
	326	323

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 was £2.9 billion (excluding expansion related costs). The Q6 capital programme was primarily focussed on maintenance and compliance related projects, together with sustaining and improving the passenger experience. Capital spend in 2019 is forecast to be in the region of £700 million (excluding expansion related costs).

Capital spend in 2019 is forecast to be in the region of £700 million (excluding expansion related costs).

Other commitments
Heathrow Airport Limited has a commitment to pay £77 million 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, with payment expected during 2019. The amount will be included in the RAB in accordance with the Q6 regulatory settlement.

Following the Government decision in October 2016 for Heathrow as preferred option for expansion, the Company recognises that up to 62 residential property owners could exercise their right under the previous scheme for which bonds were issued, to redeem those bonds at some point in the future. The Company's best estimate of the total payment is £21 million based on a valuation in accordance with the terms set out in the bond contract and assumes all 64 bondholders will exercise their option to sell. 2 houses were purchased in 2018 for a total cost of £1 million.

Following the designation of the Airports National Policy Statement on 26th June 2018, Heathrow has signed a Blight indemnification agreement with the Department for Transport, such that the Company will take responsibility for any successful claims for statutory blight of residential property under certain conditions. During the time between NPS designation and DCO consent is achieved, it is estimated that between 5% and 25% of the total eligible population may serve successful Blight notices. This would result in Heathrow's obligation to purchase properties at an estimated cost between £11m to £53m (based on expected 5%-25% take-up respectively). The cost includes an unaffected market value of the property plus 10% home loss payment and other costs. If all the relevant residential property owners were to submit a valid Blight claim, the Company's best estimate of the total payment is £212 million. It is expected that the cost of purchased properties will be added to the RAB.

21 Subsequent events
On 20 February 2019, the Board approved a dividend payment of £100 million (to fund dividends to the shareholders of FGP Topco Limited) to be made on 1 March 2019 and a dividend payment of £1.78 million (to service external debt held by one of the Group's holding companies) to be made on 11 March 2019.

22 Ultimate parent undertaking and controlling party
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 all hold ordinary shares in the following proportion; Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK, LP (11.18%) (investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2018, 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 2018.

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. This is the registered office for the smallest and the largest undertaking to consolidate these financial statements.

23 Related party transactions
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.

During the year the Company entered into the following transactions with related parties that are not wholly owned subsidiaries of the FGP Topco Limited Group.

	Sales to related party		**Purchases from related party**		**Amounts owed by related party**	
	2018	2017	**2018**	2017	**2018**	2017
Related party	**£m**	£m	**£m**	£m	**£m**	£m
Amey OWR Ltd	-	-	**1**	2	-	-
Ferrovial	-	-	**2**	2	-	-
Ferrovial Agroman	-	-	**69**	61	-	-
Harrods International Limited	**23**	23	-	-	-	-
Qatar Airways	**35**	35	-	-	**2**	2
QS Airports UK, LP	-	-	-	-	-	-
	58	58	**72**	65	**2**	2

The related parties above are related through ownership by the same parties. Related party transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arms-length basis.