

Heathrow Airport Holdings Limited
Annual report and financial statements
for the year ended 31 December 2014

Heathrow Airport Holdings Limited

Contents

Officers and professional advisers	1
Strategic report	
Business overview	2
Management review	6
Financial review	11
Leadership and governance	19
Internal controls and risk management	21
Directors' report	25
Directors' responsibilities statement	28
Independent auditor's report on the Group financial statements	29
Group financial statements	
Consolidated income statement	30
Consolidated statement of comprehensive income	31
Consolidated statement of financial position	32
Consolidated statement of changes in equity	33
Consolidated statement of cash flows	34
Accounting policies	35
Significant accounting judgements and estimates	45
Notes to the Group financial statements	46
Independent auditor's report on the Company financial statements	87
Company financial statements	
Company balance sheet	88
Accounting policies	89
Notes to the Company financial statements	91

Heathrow Airport Holdings Limited

Officers and professional advisers

Directors

Sir Anthony Nigel Rudd
Akbar Abbas Al Baker
Stuart Baldwin
Christopher Beale
David Begg
Ali Bouzarif
Jorge Gil
John Holland-Kaye
Eric Lachance
José Leo
Rachel Lomax
Ernesto López
Fidel López
Michael Powell
Qing Zhang

Richard Agutter	(Alternate to Akbar Abbas Al Baker)
Paul Barr	(Alternate to Stuart Baldwin)
Juan Carlos Bullón	(Alternate to Fidel López)
Samuel Coxe	(Alternate to Christopher Beale)
Olivier Fortin	(Alternate to Eric Lachance)
Ignacio Aitor García	(Alternate to Ernesto López)
Robert Horsnall	(Alternate to Michael Powell)
Deven Karnik	(Alternate to Ali Bouzarif)
Iñigo Meirás	(Alternate to Jorge Gil)
Yan Wang	(Alternate to Qing Zhang)

Secretary

Carol Hui

Registered office

The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor

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

Bankers

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

Heathrow Airport Holdings Limited

Strategic report

Heathrow Airport Holdings Limited ('Heathrow Airport Holdings' or the 'Company') is the holding company of a group of companies that provide and manage airport facilities at Heathrow airport. The Heathrow Airport Holdings group (the 'Group') is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). 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 – overview of the business model and strategy of the Group;

Management review – overview of the year ended 31 December 2014, along with the key factors likely to impact the Group in 2015;

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2014 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 and the various Committees in Heathrow Airport Holdings Limited which provide overall leadership to the Heathrow group of companies; and

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

Business overview

Our business model

Heathrow is one of Europe's hub airports and the third largest airport in the world by passenger numbers. Heathrow is the only hub airport in the UK and the primary airport in London, which is the world's largest aviation market by some margin. Heathrow serves 75 direct destinations that are not served by any other UK airport and handles more than 80% of all long haul passengers flying to or from the UK.

Heathrow operates a hub model allowing it to offer a compelling, competitive range of routes and frequencies for the large London origin and destination aviation market. This enables airlines to fly to more destinations more frequently than could be supported by local demand alone. It is the most efficient way of connecting many different destinations and enables airlines to sustain routes and frequencies that could not otherwise be supported.

Heathrow competes for passengers with other European hub airports, including Amsterdam Schiphol airport, Frankfurt airport, Paris Charles de Gaulle airport and Madrid Barajas airport. Heathrow also competes with Dubai International airport, Istanbul airport and Doha airport, for transfer traffic between North America, from and to Africa and Asia.

Heathrow is the UK's most important port and in value terms carries more than one-quarter of UK exports and more freight than Felixstowe and Southampton combined. The bulk of cargo and mail at the airport is carried in the cargo holds of passenger flights rather than by dedicated cargo flights.

The Group generates aeronautical revenue from fees charged to airlines primarily for passenger facilities; take-off and landing and aircraft parking. Non-aeronautical income is generated from retail concession fees, car parking income, Heathrow Express rail operations and other services supplied by Heathrow.

Our strategy

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

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

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Business overview *continued*

Our priorities

- **Beat the plan**
To secure future investment, we will beat the Q6 business plan and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments efficiently.
- **Transform customer service**
To deliver the world's best passenger experience, we will work with the Heathrow community to transform the service we give to passengers and airlines, punctuality and resilience.
- **Win support for expansion**
To connect Britain to the world for future generations, we will win support for expansion of Heathrow from our local community, airlines, shareholders, politicians and regulators.
- **Mojo**
To be a great place to work, we will help our people fulfil their potential and work together to lead change across Heathrow with energy and pride.

Our regulatory environment

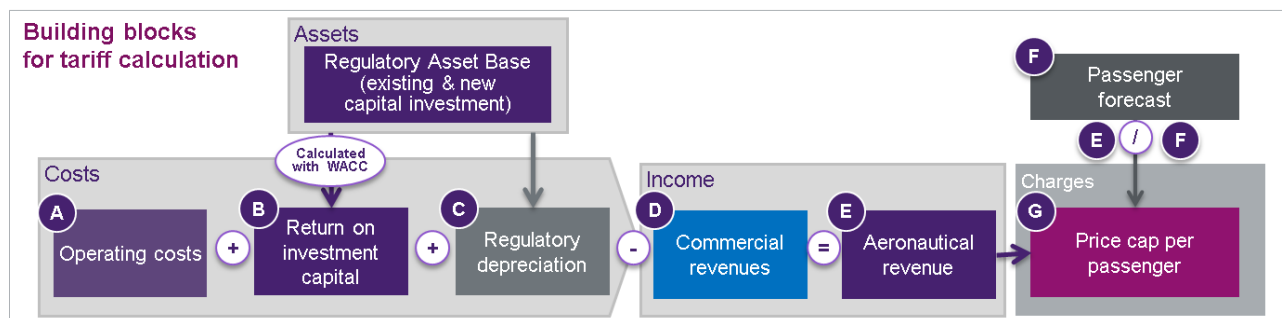
Heathrow is subject to economic regulation by the Civil Aviation Authority ('CAA'), which is the independent aviation regulator in the UK, responsible for economic regulation, airspace policy, safety and consumer protection.

As the economic regulator for UK airports, the CAA assesses the market power of airports and if, as is the case with Heathrow, the CAA determines that an airport holds significant market power, the airport is regulated by means of a licence, which includes a price cap on Heathrow's airport charges.

The Price Cap

In setting the price cap, the CAA determines the regulated revenue requirement. In simple terms, this is calculated as the sum of forecast operating expenditure less other revenue plus a return that is derived by applying the cost of capital determined by the CAA to the forecast Regulatory Asset Base (RAB) (taking into account forecast capital expenditure) and a regulatory depreciation allowance. The resulting regulated revenue requirement effectively determines the total income that can be raised from airport charges levied on the airlines using the airport. The regulated revenue requirement is divided by forecast passenger numbers which, subject to smoothing the progression of charges across the regulatory period, establishes the airport charges price cap expressed as a maximum allowable yield per passenger.

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



The CAA sets the maximum level of airport charges for Heathrow, generally for five year periods, known as quinquennia. Heathrow's current regulatory period is for four years and nine months from 1 April 2014 to 31 December 2018 in order to align Heathrow's financial and regulatory years.

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

While the price cap places a limit on the increase in the airport charges yield, Heathrow has the discretion on whether to price to the maximum permitted level.

Heathrow Airport Holdings Limited

Strategic report *continued*

Business overview *continued*

Our regulatory environment *continued*

The Price Cap *continued*

The price control conditions set by the CAA include the following components for the maximum allowable yield:

- a mechanism designed to adjust the maximum allowable yield within the relevant quinquennium for either additional or reduced security costs incurred as a result of new UK or European Commission security directives issued by or through the UK Government;
- a mechanism designed to correct for any under recovery (dilution) or over recovery (concentration) in airport charges compared to the annual maximum allowable yield per passenger; and
- there is a capital expenditure “trigger” term built into the price control for Heathrow, with provision for the maximum allowable yield to be reduced if specified project milestones are not delivered on time.

Our income

Heathrow generates two primary types of income: aeronautical income, which is generated from fees charged to airlines for use of the Airport’s facilities, and non-aeronautical income from a variety of sources.

Aeronautical income

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

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

Passenger fees

Fees per passenger are based on the number of passengers on board an aircraft, and are levied in respect of all departing passengers. Reduced charges are applied to passengers that transfer through the airport.

Landing charges

Landing charges are 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, engine nitrogen oxide (‘NOx’) emissions and noise certification values. These charges are adjusted, where applicable, for the time of day.

Parking charges

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

Non-aeronautical income

Heathrow generates non-aeronautical income from a variety of sources. These include:

- concession fees from retail operators;
- direct income from car parks and advertising revenue;
- the rental of airport premises such as aircraft hangars, cargo storage facilities, maintenance facilities and offices;
- the provision of facilities such as baggage handling and passenger check-in; and
- fare revenue from the operation of the Heathrow Express rail service.

Infrastructure

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 2014 its runways operated at 98.1% (2013: 97.8%) of their permitted capacity.

Terminals

Heathrow airport has five operational terminals. In June 2014, Terminal 2 was opened on time and on budget and attained a high safety record during the construction phase. The new terminal has the capacity to cater for up to 20 million passengers a year. Terminal 5 is the largest terminal and provides passenger capacity for up to 30 million passengers per year. Terminal 1 operations are being phased out and are budgeted to close in October 2015.

Heathrow’s terminal capacity is expected to be approximately 85 million passengers per year once Terminal 1 operations are discontinued.

Heathrow Airport Holdings Limited

Strategic report *continued*

Business overview *continued*

Infrastructure *continued*

Baggage systems

In parallel with the work on Heathrow's terminals, significant investment continues in Heathrow's baggage infrastructure. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational, and delivery of the Terminal 3 integrated baggage system remains on track to start operation in 2015 and will be fully operational in May 2016.

Cargo and mail carriers

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

Cargo sheds at the airport are owned by third parties who lease space to cargo service providers.

Heathrow Airport Holdings Limited

Strategic report *continued*

Management review

Review of the year

In order to provide a more meaningful comparison of the Group's performance between 2013 and 2014 the information presented below focuses on the adjusted performance of the Group's continuing operations. It therefore excludes the operations of Airport Holdings NDH1 Limited and its subsidiaries (together, the 'NDH1 Group'), which was sold on 18 December 2014. Airport Holdings NDH1 Limited was the holding company of a group of companies that principally owned and operated three airports in the UK located in Glasgow, Aberdeen and Southampton.

Heathrow performed strongly in 2014 delivering a solid financial performance and achieving the highest passenger satisfaction of all major European airports whilst handling more passengers than ever.

In July 2014, John Holland-Kaye became Chief Executive Officer and set out his ambition for Heathrow to become one of the best airports in the world. Heathrow took an important step in 2014, with passengers ranking Heathrow the number one major European airport. Passenger satisfaction hit a record high and 78% of passengers in 2014 rated their experience with the airport as 'Excellent' or 'Very Good' recognising the improvements delivered through the year including the opening of Terminal 2 and increased security lanes in Terminal 5 from December. Despite operating at full capacity, departure punctuality improved through the year with 78% of flights departing within 15 minutes of schedule as operational procedures improved across all stakeholders. As part of a programme to build greater operational resilience, a centralised airport operations control centre was opened in late 2014. The centre is focused on improving the flow of passengers, aircraft and bags through the end to end journey. The centre enhances operational awareness and collaboration and is leading to improved performance of the airport operation.

These achievements were all the more significant, as Heathrow welcomed a record 73.4 million passengers in 2014, over a million more than in 2013. New routes and additional flights were launched to mature and emerging long haul markets benefiting from the strength of efficient hub facilities. New destinations include Manila, Chengdu, Bogota and Austin, Texas and Air China consolidated its London operations into Heathrow.

By the end of 2014, Heathrow had more airlines operating Boeing 787s than any other airport globally, whilst the number of airlines operating Airbus 380s increased to seven, benefiting from the direct demand to use Heathrow and the hub capabilities for efficient transfers.

2014 was a milestone year in the transformation of Heathrow, with the opening of Terminal 2: The Queen's Terminal in June. The terminal is home to 26 airlines including Star Alliance airlines at Heathrow. The terminal provides the ability for airlines to operate with low minimum connecting times for transfer passengers, benefiting from the hub infrastructure. Together with Terminal 5, which has been the winner of the Skytrax World's Best Airport Terminal for three successive years, Heathrow now has two world-class terminals, giving the UK a world-class entry point.

A new period of economic regulation started in April and the business launched its five year plan to further improve the passenger experience and increase operational resilience whilst delivering a competitive cost of operation. The regulatory settlement is based on the delivery of £600 million of cost efficiencies between 2014 and 2018. A strong start has been made and the cost efficiencies secured in 2014 are projected to deliver approximately £280 million in savings for the period of the plan. In addition, revenue initiatives forecast to generate around £100 million have already been implemented.

Strategically, there was significant focus in 2014 on developing the proposals for expanding Heathrow. Heathrow is the UK's only hub airport and together with its unique catchment area, airlines choose to operate 80% of the UK's scheduled long haul traffic at Heathrow. The airport is full and opportunities for airlines to start new routes to fast growing markets are constrained, with airlines often looking elsewhere in Europe rather than in the UK to build routes, resulting in important traffic flows bypassing the UK in turn undermining the UK's ability to access key emerging markets. Support for expanding Heathrow is growing locally and nationally and at the launch of its national consultation, the Airports Commission estimated that Heathrow expansion could bring benefits of up to £211 billion across the UK economy. These benefits include a combination of new trade opportunities and markets, supply chain employment, business creation and jobs across the UK. In the summer of 2015, the Airports Commission will make a final recommendation for expansion.

Heathrow Airport Holdings Limited

Strategic report *continued*

Management review *continued*

Passenger traffic

Heathrow's passenger traffic by geographic segment for the year ended 31 December 2014:

Total passengers by market served	Year ended	Year ended	Change % ¹
	31 December 2014 m	31 December 2013 m	
UK	5.3	5.0	5.5
Europe	30.0	29.9	0.2
North America	17.0	16.7	1.7
Asia Pacific	10.4	10.3	1.5
Middle East	6.0	5.9	3.4
Africa	3.5	3.5	(0.2)
Latin America	1.1	1.1	6.3
Total passengers¹	73.4	72.3	1.4

¹ Calculated using unrounded passenger figures.

For the year ended 31 December 2014, Heathrow's traffic increased 1.4% to 73.4 million passengers (2013: 72.3 million). The average load factor rose to 76.6% (2013: 76.4%), the average number of seats per passenger aircraft increased to 204.5 (2013: 202.8) and the airport operated at 98.1% of its maximum flight capacity (2013: 97.8%).

New routes and additional flights have been launched to emerging markets and other long haul destinations. Despite capacity constraints, these are made possible by the unique passenger catchment together with the modern infrastructure to enable smooth connections. New destinations include Manila, Chengdu, Bogota and Austin, Texas and Air China consolidated all its London operations into Heathrow. In addition, British Airways announced the start of a new service to Kuala Lumpur and Vietnam Airlines announced that it will move its entire London operations from Gatwick airport to Heathrow and increase frequencies in 2015.

Long haul demand grew in most regions with intercontinental traffic up 1.9%. North America benefited from new destinations and increased frequencies on existing routes, resulting in a rise of 1.7%. Traffic on routes serving the Middle East grew by 3.4% reflecting increased flights and higher load factors. Traffic to and from Asia Pacific destinations grew by 1.5%, supported by increased frequencies on existing Asian routes. Latin American traffic grew 6.3% reflecting the new route to Colombia, increased flights to Mexico and growth in Brazil.

European traffic was up 0.2% year on year, retaining the step change in traffic that these markets experienced in 2013. Domestic traffic grew strongly with an increase of 5.5%.

With over a quarter of UK exports passing through Heathrow, cargo volume at Heathrow increased a further 5.3% to 1.5 million metric tonnes in 2014, with notable increases on China, Hong Kong, Brazil and USA.

Service standards

Heathrow's quality of service and facilities continued to receive strong endorsement. In the 2014 Skytrax World Airport Awards, Terminal 5 was named the world's 'Best Airport Terminal' for the third year in a row and Heathrow was named the 'Best Airport for Shopping' for the fifth consecutive year. The Skytrax World Airport Awards are independent of any airport input and assess customer service and facilities across 388 airports providing an impartial benchmark of airport excellence and quality.

Heathrow achieved its highest ever overall passenger satisfaction in the independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI), averaging 4.04 (2013: 3.97) out of 5.00 and the first year in which passenger satisfaction was above 4.00 in every quarter. The score reflects strong overall operational performance, near-record levels of punctuality and strong levels of satisfaction across key passenger service attributes. In addition, 78% of passengers surveyed in 2014 rated their experience as 'Excellent' or 'Very Good'.

In relation to individual service standards, in 2014, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 78% (2013: 77%). Heathrow's baggage misconnect rate was 19 per 1,000 passengers (2013: 14), in part reflecting service interruptions to the baggage systems in the summer. A full review of baggage systems and processes has been conducted and an action plan has begun.

Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 96.1% of the time (2013: 90.9%) compared with a 95% service standard. For Heathrow's current regulatory period, the Civil Aviation Authority ('CAA') has raised standards for certain elements of the service quality scheme to build on improvements made through the last regulatory period. The standards for measuring security queues will move to a 'per passenger' basis once queue measurement automation is introduced. The standard will require 99% of passengers to pass through security within 10 minutes.

Heathrow Airport Holdings Limited

Strategic report *continued*

Management review *continued*

Service standards *continued*

As part of a programme to build greater operational resilience, a centralised airport operations control centre was opened in late 2014. The centre is focused on improving the flow of passengers, aircraft and bags through the end to end journey. The centre enhances operational awareness and collaboration and is leading to improved performance of the airport operation.

Terminal 2: The Queen's Terminal

Heathrow delivered the latest stage in its transformation, with the opening of the multi-billion pound Terminal 2: The Queen's Terminal in June 2014.

Her Majesty the Queen officially opened the terminal on 23 June 2014, accompanied by HRH the Duke of Edinburgh. The original Terminal 2, opened by Her Majesty the Queen in 1955, was Heathrow's first terminal and was designed to deal with 1.2 million passengers a year. The new multi-billion pound terminal has the capacity to cater for up to 20 million passengers a year. Airlines and passengers benefit from state of the art facilities that include main terminal and satellite buildings, a multi-storey short-stay car park and an energy centre supporting Terminal 2 and the wider airport. The terminal and satellite buildings include 24 aircraft stands of which seven stands are capable of handling the increasing number of A380 aircraft operating at Heathrow.

The terminal is now home to 23 Star Alliance member airlines operating at Heathrow together with Aer Lingus, Virgin Atlantic Little Red and Germanwings. The phased transition of airlines into the terminal began on 4 June and completed on-time on 23 October with approximately 350 daily arrivals and departures now being handled by the new facilities. Co-location of the Star Alliance airlines at Heathrow provides the opportunity to enhance efficiencies through use of common facilities, processes and personnel. It also enhances the scope for closer commercial co-operation between alliance members by, for example, capitalising on competitive minimum connection times to attract greater volumes of transfer passengers. Both these features will further strengthen Heathrow's competitive position.

The success of the opening phase of the terminal's operation is reflected in it achieving an average 4.23 ASQ score in the second half of 2014. This score would place Heathrow Terminal 2 as the best airport in Europe if it were a standalone airport.

Together with Terminal 5, Heathrow now has two world-class terminals, giving a world-class entry point to the UK. The opening of Terminal 2 is the culmination of an £11 billion capital investment at Heathrow over the last decade that has transformed Heathrow's infrastructure and positioned it strongly to continue its role as a leading global hub airport for the benefit of the whole of the UK in the coming decades.

Heathrow's business plan

Heathrow's business plan for the latest period of economic regulation ('Q6') which began on 1 April 2014 and runs until 31 December 2018 focuses on delivering a noticeably better passenger experience, ensuring a continued focus on improved resilience and capacity availability and delivering a competitive cost of airport operation.

The price controls set by the CAA for Q6 permit an annual change to the maximum allowable yield per passenger of RPI minus 1.5%. The settlement assumes modest traffic growth of around 1% per annum, averaging 73 million annual passengers, after allowance for demand shocks. Given the constraint on capacity at Heathrow, growth in passengers is expected to be supported by larger and fuller aircraft.

Building on 2014, in nominal terms, for the four years from 2015 to 2018, revenue is forecast to rise at a compound annual growth rate of around 2% whilst operating costs remain broadly flat resulting in approximately 4% compound annual growth in Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items).

The settlement for the Q6 period assumes delivery of £600 million of cost efficiencies between 2014 and 2018. Plans are in place to deliver around half of the savings from employment costs; these include corporate centre headcount reductions, slower wage growth, provision of more sustainable pension benefits, increased productivity and broader market-alignment of employment terms. Most of the remainder of the savings will be delivered through improved supplier terms across the airport operation and corporate centre.

In 2014, the business has focused on securing early sustainable savings and revenue growth. The cost efficiencies secured to date are projected to deliver approximately £280 million in savings for the period of the plan, these include approximately £80 million in employment cost efficiencies and initiatives totalling around £200 million with suppliers.

Revenue initiatives secured to date are forecast to generate around £100 million. These include successful car park revenue management with the introduction of a wider product range, together with yield and demand management. Retail concessions are being negotiated on an on-going basis and in October Heathrow extended agreements with World Duty Free by six and a half years which deliver immediate benefit.

Heathrow Airport Holdings Limited

Strategic report *continued*

Management review *continued*

Investing in Heathrow

Building on the £11 billion investment programme over the last 10 years, Heathrow invested close to £730 million in 2014. Capital expenditure in cash terms was £853 million and reflects the timing difference between completion of assets in 2013 and corresponding supplier payments in 2014.

Completion of Terminal 2 accounted for a third of capital expenditure in 2014. The remainder included investment in Heathrow's baggage infrastructure, the refurbishment of tunnels to the Central Terminal Area, asset replacement and investment in operational resilience. Night-time resurfacing of the northern runway took place over the summer and completed on time at the end of September. Improvements to passenger experience included the expansion of security lanes in Terminal 5 and a new designer retail offering in Terminal 5, strengthening its position as an unrivalled airport shopping experience.

In March 2015 the £0.5 billion Terminal 3 Integrated Baggage facility will start initial operations and will be fully operational in May 2016. The automated baggage handling facility combines process enhancements with advancements in technology to create an integrated, efficient and user friendly operation for Terminal 3. It is a key step in moving Heathrow towards the goal of fully integrated and inter-connected baggage facilities across all terminals. Once fully operational the facility will provide increased baggage handling capacity for Terminal 3, reduced misconnection rates, faster transfers between Terminal 3 and Terminal 5 and improved working conditions for handling baggage. Passengers will benefit from early bag check-in with capacity for almost 5,000 early bags.

Capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 is currently forecast to be £2.6 billion. In line with the regulatory settlement, the capital programme may increase to up to £3.3 billion. This is subject to further scoping of the remaining individual projects and approval of the corresponding business cases. The capital programme is primarily focused on maintenance and compliance related projects, together with sustaining and improving the passenger experience. As well as Terminal 3 Integrated Baggage, the capital plan also includes a £1 billion programme of asset management and replacement projects and a £320 million project to implement latest generation hold baggage screening equipment to comply with EU directives. Capital spend in 2015 is forecast to be in the region of £580 million.

Airports Commission

At the end of 2013, the Airports Commission chaired by Sir Howard Davies published its interim report stating that there is a clear case for at least one net additional runway in London and the South East by 2030. Heathrow's proposal for a third runway to the north west of the existing airport facilities is shortlisted for further appraisal along with another option at Heathrow and one at Gatwick.

Heathrow's expansion proposal raises the airport's capacity to 740,000 flights a year, from the current limit of 480,000, catering for up to 130 million passengers annually. Expansion would allow the UK to compete with international rivals and provide capacity for the foreseeable future. Heathrow expects expansion to involve an investment of £16 billion over 15 years.

During 2014 Heathrow held public consultations and worked with local authorities, communities and other stakeholders and submitted a refreshed proposal to the Airports Commission reflecting input received. This proposal improved on the July 2013 plan with further reduction of noise impact, improved road capacity, reduced congestion impacts and faster delivery of hub capacity at a competitive world-class airport. On-going consultation with stakeholders has led to further refinements of the proposal. In February 2015, Heathrow unveiled plans to provide noise insulation to homes if the Government gives planning approval for a third runway and subject to CAA approval. The noise insulation offer goes above and beyond UK policy requirements, expands on Heathrow's previous proposals and is comparable to those offered by other European hub airports. In total, Heathrow estimates that over £700 million could be spent, an increase of over £450 million from that previously offered by Heathrow in its May 2014 submission to the Airports Commission, and an increase of over £610 million from previous proposals for a third runway.

Following detailed independent assessments that indicated expansion at Heathrow would result in up to £211 billion of economic benefit and create 180,000 jobs across the UK, the Airports Commission launched a 12-week national consultation on 11 November 2014. The consultation invited views and conclusions in respect of the three short-listed options; comments on the Commission's appraisal and overall approach; and comments on how the Commission carried out its appraisal of 16 specific topics.

At the close of the Commission's national consultation, Heathrow saw wide-ranging support from across Britain for its expansion plans, including 32 chambers of commerce representing every UK region, together with unions Unite and GMB, leading businesses and local residents. The Commission will now take account of responses in its final report which is expected in Summer 2015.

Heathrow Airport Holdings Limited

Strategic report *continued*

Management review *continued*

Key management changes

On 1 July 2014, John Holland-Kaye became Chief Executive Officer of Heathrow replacing Colin Matthews. John was responsible for delivering the £1 billion annual investment in transforming Heathrow, including the new Terminal 2: The Queen's Terminal. John joined the company in May 2009 as Commercial Director and was responsible for the major growth in retail income and improved passenger experience during the last regulatory period. John was previously Divisional CEO with Taylor Wimpey PLC, Operations Director at Taylor Woodrow PLC and Divisional Managing Director at Bass Brewers Limited.

In his first month as CEO John set out his ambition for Heathrow to become one of the world's best airports and set out four strategic priorities. The first is to 'beat the settlement', instilling a culture to deliver to plan and stretch for more; the second is to 'transform customer service', improving the experience for all users of Heathrow; the third is to 'win support for expansion' the case becomes increasingly urgent and the decision is critical to the UK. The final strategic aim is known as 'mojo', the aim of which is to make the company a place where people are proud to work, where there are diverse career opportunities for people working at Heathrow and for Heathrow to become an aspirational place to work for future generations.

On 1 October 2014, Heathrow announced that José Leo will stand down as Chief Financial Officer in March 2015 after over eight years at the company. José joined Heathrow in 2006 and has successfully transformed Heathrow's finances, implementing Heathrow's long-term financing platform, raising well over £11 billion of funding and establishing a strong reputation in global markets for transparent financial management of the business. José will remain as Chief Financial Officer until March 2015.

José will be succeeded as Chief Financial Officer by Michael Uzielli. Michael is currently Finance Director at British Gas where he has helped drive revenue growth, championed a cost focus to increase efficiency, restructured the company's pension schemes and led a highly engaged finance team. His work has also involved building strong relationships with the Government and energy industry regulators. Michael has experience of the aviation industry having previously worked for British Airways as well as at Schroders.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review

Introduction

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

Basis of preparation of statutory results

A number of significant events which are highlighted in the Management review and Financial review have impacted the way in which the statutory financial results for 2014 have been presented.

- *Discontinued operations*
 - On 18 December 2014 the Group completed the disposal of the NDH1 Group for a cash consideration of £1,045 million.
 - As required under IFRS the results and performance of the NDH1 Group is included in the results and cash flows of discontinued operations and is therefore reported separately in the Group's consolidated income statement and consolidated statement of cash flows.
 - The results of discontinued operations included £223 million profit on disposal, of which £200 million related to the disposal of the NDH1 Group and £23 million related to a liquidation of a subsidiary and adjustments to other previous disposals.
- *Continuing operations*
 - Exceptional items and certain re-measurements include the following:
 - £26 million exceptional items relating to restructuring costs and operational readiness costs for Heathrow Terminal 2;
 - £46 million fair value gains arising from the revaluation of investment properties; and
 - £153 million fair value loss on financial instruments.
 - From 1 January 2014, retail income includes fees paid by retailers for secure logistics services provided at the airport, which were previously reported in other income. Retail income and other income in 2013 have been restated to provide appropriate comparisons. The fees totalled £4 million in each of the years to 31 December 2013 and 2014.

Basis of presentation of financial results

In order to provide a more meaningful comparison performance between 2013 and 2014, the information presented below focuses on the adjusted performance of the Group's continuing operations. The review presented excludes other operations that have been sold, primarily the NDH1 Group.

In the year ended 31 December 2014 the Group earned an operating profit before certain re-measurements of £955 million (2013: £912 million) and a profit after tax of £308 million (2013: £709 million).

	Year ended 31 December 2014 £m	Restated ¹ Year ended 31 December 2013 £m	Change %
Continuing operations			
Revenue	2,691	2,473	8.8
Adjusted operating costs ²	(1,124)	(1,057)	6.3
Adjusted EBITDA³	1,567	1,416	10.7
Exceptional items	(26)	(46)	(43.5)
Depreciation, amortisation and impairment	(586)	(458)	27.9
Operating profit before certain re-measurements	955	912	4.7
Fair value gain on investment properties (certain re-measurements)	46	62	(25.8)
Operating profit	1,001	974	2.8
Net finance costs before certain re-measurements	(743)	(603)	23.2
Fair value loss on financial instruments	(153)	(69)	121.7
Net finance costs	(896)	(672)	33.3
Profit before tax	105	302	(65.2)
Tax (charge)/credit	(34)	110	(130.9)
Profit for the year from continuing operations	71	412	(82.8)
Profit from discontinued operations ⁴	237	297	(20.2)
Consolidated profit for the year	308	709	(56.6)

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² Adjusted operating costs are stated before depreciation, amortisation and exceptional items.

³ Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.

⁴ Includes the results of the NDH1 Group, Stansted airport, and adjustments relating to previous disposals.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Revenue

In the year ended 31 December 2014, the Group's revenue increased 8.8% to £2,691 million (2013: £2,473 million).

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Aeronautical income	1,706	1,523	12.0
Retail income	504	492	2.4
Other income	481	458	5.0
Total revenue	2,691	2,473	8.8

Aeronautical income

Heathrow's aeronautical income increased 12.0% to £1,706 million (2013: £1,523 million) and the average aeronautical income per passenger increased 10.4% to £23.25 (2013: £21.06).

The strong performance in 2014 reflects a combination of factors. A third of the growth is due to the increase in headline tariffs in 2014. Almost 40% of the increase came from the net increase in the recovery of previous yield dilution through the K factor mechanism and the absence of capital trigger payments in 2014. The remainder of the increase is driven by passenger traffic growth and non-recurrence of factors which drove yield dilution in 2013, particularly in the first quarter of the year.

Retail income

In the year ended 31 December 2014, the Group's gross retail income increased 2.4% to £504 million (2013: £492 million). Net retail income ('NRI') at Heathrow grew 3.0% to £479 million (2013: £465 million) and NRI per passenger rose 1.5% to £6.53 (2013: £6.43).

Heathrow net retail income

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Car parking	99	91	8.8
Duty and tax-free	128	126	1.6
Airside specialist shops	93	96	(3.1)
Bureaux de change	44	45	(2.2)
Catering	40	39	2.6
Other retail income	99	94	5.3
Gross retail income (Heathrow)	503	491	2.4
Retail expenditure (Heathrow) ¹	(24)	(26)	(7.7)
Net retail income (Heathrow)¹	479	465	3.0

¹ Prior to the application of consolidation adjustments within the Group.

Car parking revenue led the growth in retail income and in 2014 increased 8.8%. The growth reflects commercial initiatives which have driven improved yield and higher take-up of the product range, these include product upselling, tariff revision and enhanced product offerings.

Growth from shops overall was broadly flat in 2014 reflecting factors including the strength of sterling relative to last year, the impact of works through the summer on Terminal 5 luxury retail improvements and as anticipated the moves associated with the Terminal 2 opening impacted retail revenue.

A number of activities have taken place in 2014 to deliver benefit through the regulatory period. Heathrow extended its agreement in 2014 with World Duty Free by six and a half years. In addition, the redeveloped luxury retail space in Terminal 5 was opened in late 2014 and Louis Vuitton, Cartier, Rolex, Fortnum & Mason and Bottega Veneta have joined the line-up at Terminal 5, strengthening its position as an unrivalled airport shopping experience.

Growth in other retail income came primarily from media and advertising income. This is a result of better performance across the airport and the introduction of new advertising sites.

See the Basis of preparation of statutory results section relating to the reclassification of secure logistics services from other income to retail income (included in other retail income above).

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Other income

In the year ended 31 December 2014, the Group's other income totalled £481 million (2013: £458 million). The increase was driven by increased demand for Heathrow's VIP service, together with growth in utility charges and higher property rental income following the opening of Terminal 2.

See the Basis of preparation of statutory results section relating to the reclassification of secure logistics services from other income to retail income.

Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items. In the year ended 31 December 2014, the Group's adjusted operating costs increased 6.3% to £1,124 million (2013: £1,057 million).

	Year ended 31 December 2014	Year ended 31 December 2013	Change
	£m	£m	%
Employment costs	401	403	(0.5)
Maintenance expenditure	179	165	8.5
Utility costs	95	85	11.8
Rent and rates	133	117	13.7
General expenses	294	262	12.2
Retail expenditure	22	25	(12.0)
Total	1,124	1,057	6.3

As expected, at Heathrow operating costs in 2014 were impacted by the start of Terminal 2 operations in June 2014. Taking into account the incremental cost of Terminal 2, partially offset by the wind down of activity in Terminal 1, underlying operating costs rose by around £30 million compared with 2013, equivalent to around a 3.0% increase. This reflects delivery of cost efficiencies that offset inflationary and other cost pressures.

Employment costs remain a key priority and on an underlying basis reduced by over £10 million when taking into account the net impact of Terminals 1 and 2, reflecting strong management focus on delivering a sustainable cost of employment. A major restructure of Heathrow's corporate centre delivered benefit through the year and a two-year pay agreement with employees represented under the company's collective bargaining agreement is expected to deliver around £30 million towards cost efficiency targets for the regulatory period. In addition, security officers have been recruited to work at Terminal 2 with modern terms and conditions, ensuring a competitive cost of operation. Discussions started in late 2014 to broadly align the cost of funding the company's Defined Benefit pension scheme, which closed to new members in 2008, with that of the Defined Contribution pension scheme.

The cost of maintenance, utilities, rent and rates increased £40 million in aggregate of which over half related to operating Terminal 2.

The £32 million increase in general expenses reflects a number of factors, including £7 million of costs associated with operating Terminal 2. In aggregate around £17 million relates to activities to win approval for expansion of Heathrow; increased spend on insulation for residents impacted by noise; operational readiness activities in preparation for the start of Terminal 3 Integrated baggage facility and general inflation.

Operating costs at Heathrow in 2015 are forecast to increase 3.3%. The main contributing factor is the incremental cost of operating Terminal 2 for a whole year, which is partially offset by closure of Terminal 1, budgeted for October 2015. Taken together these add around £25 million to operating costs. Overall cost increases are expected to be partially offset by further efficiencies in employment and supplier costs.

Adjusted EBITDA

In the year ended 31 December 2014, Adjusted EBITDA increased 10.7% to £1,567 million (2013: £1,416 million), resulting in an Adjusted EBITDA margin of 58% (2013: 57%). The increase in Adjusted EBITDA principally reflects the increase in aeronautical income.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Operating profit

The Group recorded an operating profit before certain re-measurements for the year ended 31 December 2014 of £955 million (2013: £912 million). A reconciliation of Adjusted EBITDA and operating profit before certain re-measurements is provided below.

	Year ended 31 December 2014	Year ended 31 December 2013	Change
	£m	£m	%
Adjusted EBITDA	1,567	1,416	10.7
Depreciation, amortisation and impairment	(586)	(458)	27.9
Exceptional items	(26)	(46)	
Operating profit before certain re-measurements	955	912	4.7

The increase in depreciation mostly reflects the start of depreciation of the new Terminal 2 once it became available for use in May 2014, along with depreciation beginning on other projects completed in 2014.

Exceptional items

In the year ended 31 December 2014, there was an exceptional pre-tax charge of £26 million (2013: £46 million) to the income statement.

	Year ended 31 December 2014	Year ended 31 December 2013
	£m	£m
Restructure	(8)	(22)
Terminal 2 operational readiness	(18)	(16)
VAT costs	-	(8)
Exceptional pre-tax charge	(26)	(46)

In the year ended 31 December 2014, Terminal 2 operational readiness costs of £18 million were incurred (2013: £16 million). These costs mainly relate to familiarisation, induction and training activities together with operating costs incurred prior to the start of operations.

In 2013, following the Supreme Court's refusal to allow the Group to appeal a decision of the Court of Appeal, the Group could no longer contest HMRC's refusal to refund £8 million relating to VAT it incurred on costs associated with the acquisition of BAA plc in 2006. The balance maintained during the course of the appeal process was therefore charged to the income statement.

Fair value gain on investment properties

Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors (2013: CBRE Limited, Chartered Surveyors). Investment properties comprise mainly airport car parks and airside assets and are considered less vulnerable to market volatility. The investment property revaluation for the year ended 31 December 2014 resulted in a gain of £46 million (2013: £62 million).

Net finance costs

Net finance costs are discussed below together with net interest paid under 'Net finance costs and net interest paid'.

Fair value movements on financial instruments

A net fair value loss of £153 million (2013: £69 million loss) on financial instruments has been recognised in financing costs in the income statement. The non-cash, fair value loss is principally due to negative marked-to-market movements on interest rate swaps arising from recent lower interest rate expectations and a greater amount of these swaps no longer being hedge accounted. This loss is partially offset by gains on index-linked swaps driven primarily by a decrease in inflation expectations at the end of 2014.

Taxation

The tax charge recognised for the year was £34 million (2013: £110 million credit). Based on a profit before tax for the year of £105 million (2013: £302 million), this results in an effective tax rate of 32.4% (2013: negative 36.4%).

During the year ended 31 December 2013, the Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result, the Group's deferred tax balances, which were provided at 23% at 31 December 2012, were re-measured at a rate of 20% resulting in a £157 million credit to the income statement.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Taxation *continued*

Excluding the impact of the change in tax rate, the tax charge recognised for the year on ordinary activities of £34 million (2013: £47 million) results in an effective tax rate of 32.4% (2013: 15.6%). The tax charge is more (2013: less) than implied by the statutory rate of 21.5% (2013: 23.25%) primarily due to non-deductible expenses (2013: non-taxable income).

Discontinued operations

Discontinued operations included the results of the NDH1 Group in 2014 and Stansted airport in 2013. The NDH1 Group was sold on 18 December 2014 generating a profit of £200 million. A further £23 million gain related to the liquidation of a subsidiary and adjustments to other previous disposals. The £297 million overall profit in 2013 for discontinued operations included profits on disposal of £148 million, mainly due to Stansted airport which was sold in February 2013.

Summary cash flow

In the year ended 31 December 2014 the Group increased cash and cash equivalents by £172 million, compared with a decrease in 2013 of £9 million. At 31 December 2014, the Group had £331 million of cash and cash equivalents compared with £159 million at 31 December 2013.

	Year ended 31 December 2014	Restated ¹ Year ended 31 December 2013
	£m	£m
Cash generated from continuing operations	1,515	1,365
Group relief paid	-	(2)
Cash generated from discontinued operations ²	69	74
Net cash from operating activities	1,584	1,437
Capital expenditure	(856)	(1,273)
Increase in term deposits	(170)	-
Disposal proceeds, other cash movements and investing activities of discontinued operations ³	609	1,389
Net cash (used in)/from investing activities	(417)	116
Dividends paid	(1,098)	(696)
Movements in bonds	1,009	349
Net movement in other borrowings and other financing items	(131)	(427)
Cancellation and restructuring of derivatives	9	(33)
Settlement of accretion on index-linked swaps	(185)	(177)
Net interest paid	(564)	(506)
Financing activities of discontinued operations	(35)	(72)
Net cash used in financing activities	(995)	(1,562)
Net increase/(decrease) in cash and cash equivalents	172	(9)

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² Includes the results of the NDH1 Group, Stansted airport, and adjustments relating to previous disposals as a result of their classification as discontinued operations.

³ Includes £988 million net proceeds from the sale of the NDH1 Group (2013: £1,414 million from the sale of Stansted airport).

Cash flow from continuing operations

Cash inflow from continuing operations in the year ended 31 December 2014 increased 11.0% to £1,515 million (2013: £1,365 million) which compares with Adjusted EBITDA of £1,567 million (2013: £1,416 million).

Capital expenditure

The most significant areas of capital expenditure at Heathrow in 2014 were on remaining work on Terminal 2 and the new integrated baggage system for Terminal 3.

In the year ended 31 December 2014, the cash flow impact of capital investment at Heathrow was £853 million (2013: £1,283 million) with lower gross additions to fixed assets in the period of approximately £725 million.

The higher level of cash capital investment reflects the reversal of the trend seen from the end of 2013 through to the completion of Terminal 2 when higher gross balance sheet additions than supplier payments were being incurred. As expected, with a materially lower capital programme in 2014 this trend has reversed through 2014.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Disposal proceeds

The Group completed the disposal of the NDH1 Group in December 2014 for £1,045 million (2013: Stansted airport in February 2013 for £1,500 million). Net proceeds, after allowing for disposal costs, cash held by the NDH1 Group on the date of disposal, and pension payments were £988 million (2013: £1,414 million). Disposal proceeds were utilised to pay £670 million of dividends (2013: £300 million) and £355 million to repay facilities and cancel derivatives held by the NDH1 Group. In 2013 the remaining net proceeds on the disposal of Stansted airport were utilised to repay debt in the SP group.

Dividends

The Group's shareholders received a total of £1,098 million in dividends during 2014 (2013: £696 million) comprising a £670 million one-off return on their historic investment in the NDH1 Group following its disposal (2013: £300 million on disposal of Stansted airport), £270 million (2013: £255 million) in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to the servicing of external debt at the Company's immediate holding companies (2013: £141 million related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries).

Pensions

At 31 December 2014, the Group's defined benefit pension scheme deficit was £199 million as measured under IAS 19 'Employee Benefits (Revised 2011)' (2013: £93 million). The majority of the increase in the deficit is due to a reduction in the discount rate applied to the defined benefit scheme obligation, as well as the impact of aligning mortality assumptions with the basis of the latest triennial valuation. These increases were partially offset by asset returns.

In January 2015, the trustee of the Group's defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustee's actuarial assumptions. LHR Airports Limited agreed an increase to its annual deficit recovery payment from £24 million to £27 million until 2023. In respect of future accrual of benefits LHR Airports Limited will contribute approximately 33% of basic salary and shift pay, which is estimated to be £46 million in 2015.

Recent financing activities

The focus of the Group's financing activities through 2014 was to take advantage of attractive financing market conditions to optimise the Group's long-term cost of debt and extend its debt maturity profile. During 2014, the Group successfully closed eleven term debt financing transactions, raising over £1.8 billion. Through the year the Group also repaid £717 million of external debt including a €750 million (£513 million) bond maturity at Heathrow Funding on 30 September, a net £204 million reduction in loan drawings in the Heathrow Finance group and £320 million of debt held within the NDH1 Group following its disposal.

Three public fixed rate bonds raised close to £1 billion. The first of which was issued in May, a €600 million, 8 year bond with a coupon of 1.875% payable annually, successfully extending Heathrow's maturity profile in the Euro market. In June, a C\$450 million, 7 year bond was issued with a coupon of 3.0% payable semi-annually, establishing Heathrow as a repeat issuer in the Canadian bond market. Finally, in October Heathrow Finance completed a £250 million, 10.5 year bond with a fixed semi-annual coupon of 5.75%, substantially extending Heathrow's maturity profile at this level in its debt capital structure.

Seven private placements were completed in 2014, raising over £750 million. These included £300 million of Class A index-linked bonds raised in two separate transactions. In addition, a £100 million, 12 year Class A private placement was completed. Two 20 year Class A transactions also closed, one of £50 million with a 4.17% coupon payable semi-annually and the other of €50 million with a 4.34% annualised cost in sterling terms. In Class B format, a £155 million 12 year private placement was priced in two tranches with an average 4.16% yield payable semi-annually. Finally, a £115 million 21 year Class B index-linked transaction with a cost of RPI+1.061% has priced and will be drawn in September 2015.

In late 2014, Heathrow Finance entered into £75 million of 5 and 7 year loan facilities which will be drawn by March 2015.

The Group also successfully refinanced its core revolving credit and liquidity facilities. The new facilities will provide strong support over the next few years for Heathrow's investment programme and extensive capital markets issuance activities. The facilities were significantly oversubscribed with £3.5 billion of commitments from 22 existing and new relationship banks from across the world. The new facilities total £2.15 billion, comprising £1.1 billion Class A and £300 million Class B revolving credit facilities and £750 million in standby liquidity facilities. The revolving credit facilities mature in November 2019 and were secured at substantially lower cost than the facilities they replace.

Since the beginning of 2015, Heathrow has completed a €750 million, 15 year bond with a coupon of 1.500% payable annually, materially further Heathrow's debt maturity profile in the Euro market.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Net debt and liquidity

The analysis below focuses on the Group's external debt and excludes restricted cash. It includes all the components used in calculating gearing ratios under the Group's major financing agreements including index-linked accretion.

The Group's nominal net debt increased 1.5% from £12,339 million at 31 December 2013 to £12,522 million at 31 December 2014 and comprised £12,248 million under bond issues, £354 million in term debt, £411 million in index-linked derivative accretion and cash at bank and term deposits of £491 million. Nominal net debt comprised £12,560 million at the Heathrow Finance plc group level and £38 million of net cash elsewhere in the Group.

The accounting value (which includes £323 million cash and cash equivalents and £170 million term deposits reflected in the statement of financial position) of the Group's external net debt excluding accrued interest and restricted cash was £12,208 million at 31 December 2014 (2013: £12,098 million).

The average cost of the Group's external gross debt at 31 December 2014 was 4.71% (2013: 4.54%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2014 was 5.73% (2013: 6.02%). The reduction in the average cost of debt since the end of 2013 is mainly due to lower inflation at the end of 2014.

At 31 December 2014, the Group had approximately £2.0 billion in undrawn loan facilities and cash resources. Taking this into account, together with financings entered into in 2014 but due to be drawn during 2015, recent financing in 2015 and the expected operating cash flow over the period, the Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2016.

Regulatory Asset Base ('RAB')

Heathrow's RAB at 31 December 2014 was £14,860 million (2013: £14,585 million). RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

The increase in Heathrow's RAB during the year ended 31 December 2014 reflected the addition of approximately £725 million in capital expenditure and around £240 million of indexation adjustments. The increases were partially offset by regulatory depreciation of around £660 million. In addition, the CAA disallowed £32 million of the £5.9 billion capital investment during the Q5 regulatory period which was deducted from the RAB from the beginning of the new regulatory period.

Net finance costs and net interest paid

In the year ended 31 December 2014, the Group's net finance costs before certain re-measurements were £743 million (2013: £603 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

	Year ended 31 December 2014	Restated ¹ Year ended 31 December 2013
	£m	£m
Net finance costs before certain re-measurements	(743)	(603)
Amortisation of financing fees, discounts and fair value adjustments	18	1
Amortisation on bond redemption	62	-
Borrowing costs capitalised	(89)	(164)
Underlying net finance costs	(752)	(766)
Non-cash accretion of index-linked instruments	159	202
Release of cash flow hedge reserves	(24)	-
Other movements	53	58
Net interest paid	(564)	(506)

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

Underlying net finance costs were £752 million (2013: £766 million), after adjusting for £89 million (2013: £164 million) in capitalised interest, £18 million (2013: £1 million) in non-cash amortisation of financing fees and bond fair value adjustments, and £62 million (2013: £nil million) of amortisation on bond redemption.

Net interest paid in the year ended 31 December 2014 was £564 million (2013: £506 million). This consisted of £567 million (2013: £509 million) net interest paid on debt at the Heathrow Finance group level and £3 million (2013: £3 million) net interest received elsewhere in the Group.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Net finance costs and net interest paid *continued*

Net interest paid is lower than underlying net finance costs primarily due to a £159 million (2013: £202 million) non-cash charge relating to accretion on index-linked instruments. This is partially offset by the net effect of capitalised interest and the non-cash amortisation of financing fees and bond fair value adjustments.

Within net finance costs before certain re-measurements is a one-off non-cash amortisation charge of £61 million, recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedge relationship. There is also a one-off non-cash amortisation credit of £24 million released from the cash flow hedge reserve. The amount relates to residual balances remaining on maturity of certain swaps in hedge relationship.

Financial ratios

The Group continues to operate comfortably within required financial ratios.

At 31 December 2014, the SP group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 68.0% and 78.4% respectively (2013: 67.6% and 77.2% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 84.5% (2013: 82.4%) compared to a covenant level of 90.0% under its financing agreements.

In the year ended 31 December 2014, the SP group's senior and junior interest cover ratios (the ratio of cash flow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.98x and 2.43x respectively (2013: 3.08x and 2.43x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.23x (2013: 2.22x) compared to a covenant level of 1.00x under its financing agreements.

Outlook

Revenue in 2015 is expected to grow 1.3% to £2.73 billion. Expectations of growth are driven by an assumed traffic increase of 0.7% to 73.9 million passengers, an aeronautical tariff increase of 1.0% and by continued growth of non-aeronautical revenue.

Adjusted EBITDA in 2015 is consistent with the guidance set out in the December 2014 Investor Report and is forecast to be broadly the same as in 2014. This principally reflects the non-recurrence of £50 million of aeronautical income recovery in 2014 and the incremental cost of operating an additional terminal for the whole year, which offset underlying improvements in revenue and costs.

Accounting and reporting policies and procedures

This annual report complies with the European regulation to report consolidated financial statements in conformity with IFRS. The consolidated results in the financial statements for the year ended 31 December 2014 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the year ended 31 December 2013. The Group's accounting policies and areas of significant accounting judgements and estimates are detailed within the Group financial statements. The Company accounts are stated under UK GAAP.

Heathrow Airport Holdings Limited

Strategic report *continued*

Leadership and governance

Board of Directors

The Board of Directors 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 of Directors determines the 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.

Audit Committee

The Audit Committee members include a chairman appointed by the Board of Directors, the Company Secretary and three shareholder representatives, who attend the Board of Directors.

The Audit Committee is a sub-committee of the Board of Directors and is responsible for:

- considering the appointment of the external auditor, making appropriate recommendations to the Board and assessing the independence of the external auditor;
- ensuring that the provision of non-audit services does not impair the external auditor's independence or objectivity;
- discussing with the external auditor, before the audit commences, 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 external auditor management letters and responses from management;
- a standing agenda to meet privately with the external auditor independent of Heathrow Airport Holdings Limited's executive directors; and
- reviewing the scope, operations and reports of the Heathrow Airport Holdings Group's Internal Audit function on the effectiveness of systems for internal financial control, financial reporting and risk management.

Nomination Committee

The Nomination Committee members include the Chairman of the Board, an independent Non-Executive Director and board members assigned by the shareholders of FGP Topco Limited.

The Nomination Committee is a sub-committee of the Board of Directors.

The Committee:

- identifies, recommends and considers all new appointments of independent Non-Executive Directors to the Board of Directors and its sub-committees; and
- ensures a formal, rigorous and transparent procedure in the appointment of independent Non-Executive Directors to the Board of Directors.

Remuneration Committee

The Remuneration Committee members include a chairman appointed by the Board of Directors, the Company Secretary, three shareholder representatives and one independent Non-Executive Director. The Remuneration Committee members are all members of the Board of Directors.

The Remuneration Committee is a sub-committee of the Board of Directors.

Subject to any Decisions of the Committee and the Shareholders' Agreement, the Committee's specific responsibilities shall include the approval 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 CEO) including salary, bonus, pensions and other incentive compensation;
- the contractual terms for the members of the Executive Committee and independent Non-Executive Directors;
- the design and terms of bonus plans including approval of off-cycle bonus payment outside bonus guidelines including sign on, retention and guaranteed bonuses;
- the design and terms of long term incentive plans; and
- succession planning for the members of the Executive Committee.

The Committee's specific responsibilities include making proposals to the Board on:

- the salary level, bonuses and other benefits for the CEO (subject to any Decisions of the Committee and the Shareholders' Agreement); and
- the recruitment and appointment of independent Non-Executive Directors.

Heathrow Airport Holdings Limited

Strategic report *continued*

Leadership and governance *continued*

Finance Committee

The Finance Committee members include a chairman appointed by the largest shareholder of FGP Topco Limited, the Chief Executive Officer, the Chief Financial Officer, the Company Secretary and Non-Executive Directors/shareholder representatives who are each assigned by shareholders of FGP Topco Limited. The Finance Committee members all sit on the Board of Directors.

The Finance Committee is a sub-committee of the Board of Directors. The Finance Committee acts on behalf of the Board of Directors of Heathrow Airport Holdings Limited and the shareholders of FGP Topco Limited.

The Committee is required to give approval to various matters relating to the Group's debt financing arrangements prior to their implementation. These include any repayments of principal in addition to scheduled principal payments on any debt; creation of new security interests; any entering into or material change, amendment or variation to any material financing arrangement; and the refinancing of any material existing indebtedness. In addition, the Committee is required to approve prior to its issue 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.

Safety and Operational Risk Committee

The Heathrow Safety and Operational Risk Committee is chaired by an independent Non-Executive Director. The secretary is the Head of Sustainability and Environment. Members include the Chief Executive Officer and three shareholder representatives.

The Safety and Operational Risk Committee is a sub-committee of the Board of Directors.

The Committee shall:

- review and challenge the performance and conduct of the Company relating to sustainability and operational risk;
- monitor and challenge the effectiveness of the sustainability and operational risk internal control system and have access to any audit, incident and investigation report it considers relevant;
- discuss and assess with the Company management the adequacy of the Company's sustainability and operational risk management and those internal control systems;
- review and assess management's response to significant incidents and sustainability/operational risk audit findings and recommendations; and
- monitor and challenge the appropriateness of sustainability and operational risk assurance strategies and plans, the execution and results of such plans, and relevant communications.

Executive Committee

The Executive Committee consists of the Chief Executive Officer, the Chief Financial Officer, the General Counsel and Directors of Corporate Affairs, HR, IT, Operations, Procurement and Strategy, Planning and Regulation.

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

The Executive Committee develops and recommends to the Board, short, medium and long-term business development strategies. It ensures the delivery of agreed strategies by providing guidance, approvals, governance and monitoring.

Heathrow Airport Holdings Limited

Strategic report *continued*

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 the corporate services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team which implements and manages risk closely, setting the guidelines for the Group. The Executive Committee, Board and Audit Committee ('AC') referred to below relate to the Executive Committee, Board and AC of Heathrow Airport Holdings Limited. Of the four members of the AC all, including the Chair, are non-executive directors. Together they have appropriate competence in accounting and auditing.

Internal controls

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

The key features of the 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 monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- AC review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items
 - compliance with accounting, legal, regulatory and lending requirements;
 - critical accounting policies and the going concern assumption;
 - significant areas of judgement;
- independent review of controls by the Internal Audit function, reporting to the AC; and
- a confidential whistleblowing process.

Risk management

The principal risks identified by the Executive Committee are:

Safety and security

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

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

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

Strategy, regulation and competition

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

Monitoring developments in the global aviation market and the levels of passenger satisfaction with different airports around the world provide input to the on-going relevance of our strategy but this has to remain in the context of the UK government's policy on airport capacity which has a significant influence on the Group's ability to secure necessary planning permissions and develop capacity. We undertake extensive consultation with community groups and authorities at a local level and are active participants in government consultations and other advisory groups.

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Internal controls and risk management *continued*

Risk management *continued*

Strategy, regulation and competition continued

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

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

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

Operational resilience

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

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

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

Corporate social responsibility

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

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

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

Management of change

The risk of unanticipated long-term changes in passenger demand for air travel could lead to a shortfall in revenue and misaligned operational capacity within the Group. 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.

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Internal controls and risk management *continued*

Risk management *continued*

Supply chain

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

Financial stability

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

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the 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 2014, fixed rate debt after hedging with derivatives represented 98% of the 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 on-going basis with formal testing reported to the AC, the Board and Executive Committee.

The Heathrow Finance platform is rated BB+/Ba3 and supports both loan and bond debt.

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.

Heathrow Finance has positive cash flows after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2016. As at 31 December 2014, cash and cash equivalents and term deposits were £455 million, undrawn headroom under revolving credit facilities was £1,525 million and undrawn headroom under liquidity facilities was £750 million.

Heathrow Airport Holdings Limited

Strategic report *continued*

Internal controls and risk management *continued*

Risk management *continued*

Financial stability continued

(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 no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F1. 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)/A (Fitch).

On behalf of the Board



John Holland-Kaye
Director

23 February 2015

Heathrow Airport Holdings Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Principal activities

The principal activities of the Group are the provision and management of airport facilities at Heathrow airport. The Group is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are contained in the Strategic report on pages 2 to 24.

Results and dividends

The profit after taxation for the financial year was £308 million (2013: £709 million). During 2014, the Company made dividend payments totalling £1,098 million (2013: £696 million) comprising a £670 million one-off dividend following the disposal of the NDH1 Group (2013: £300 million on disposal of Stansted airport), £270 million (2013: £255 million) in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to the servicing of external debt at the Company's immediate holding companies (2013: £141 million related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries). The statutory results for the year are set out on page 30.

Directors

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

Sir Anthony Nigel Rudd (Chairman)	
Akbar Abbas Al Baker	
Stuart Baldwin	
Christopher Beale	
David Begg	
Ali Bouzarif	
Renaud Faucher	(Resigned 25 September 2014)
Jorge Gil	
John Holland-Kaye	(Appointed 1 July 2014)
Eric Lachance	(Appointed 25 September 2014)
José Leo	
Rachel Lomax	
Ernesto López	
Fidel López	(Appointed 25 September 2014)
Colin Matthews	(Resigned 30 June 2014)
Santiago Olivares	(Resigned 25 September 2014)
Michael Powell	(Appointed 20 November 2014)
Qing Zhang	

Richard Agutter	Alternate Director	
Paul Barr	Alternate Director	(Appointed 20 November 2014)
Chin Hau Boon	Alternate Director	(Resigned 20 November 2014)
Juan Carlos Bullón	Alternate Director	
Samuel Coxe	Alternate Director	
Olivier Fortin	Alternate Director	(Appointed 25 September 2014)
Ignacio Aitor García	Alternate Director	
Robert Horsnall	Alternate Director	(Appointed 20 November 2014)
Deven Karnik	Alternate Director	(Appointed 25 September 2014)
Eric Lachance	Alternate Director	(Resigned 25 September 2014)
Iñigo Meirás	Alternate Director	
Yan Wang	Alternate Director	(Appointed 3 June 2014)
Dapeng Xu	Alternate Director	(Resigned 3 June 2014)

Company Secretary

The company secretary who served during the year and since the year end was Carol Hui.

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.

Heathrow Airport Holdings Limited

Directors' report *continued*

Employment policies *continued*

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, colour, 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.

Disabled persons 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 and that their training and career development needs are carefully managed. Where employees have become disabled during the course of employment, the Group endeavours to ensure continuing employment through the arrangement of appropriate training.

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 also operates frameworks for consultation and 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. In addition, some senior management participate in a long-term incentive plan which also rewards based on group performance.

Supplier payment policies

The Group complies with the UK government's better payment practice code which states that responsible companies should:

- agree payment terms at the outset of a transaction and adhere to them;
- provide suppliers with clear guidance on payment procedures;
- pay bills in accordance with any contract agreed or as required by law; and
- advise suppliers without delay when invoices are contested and settle disputes quickly.

The Group had 30 days purchases outstanding at 31 December 2014 (2013: 16 days) based on the average daily amount invoiced by suppliers during the year.

Donations

The Group's charitable donations for the year amounted to £2 million (2013: £2 million). The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows.

Hillingdon Communities Trust	£1,000,000	Heathrow Airport Limited made a 15 year commitment ending 2017 to make an annual grant of £1 million to the Hillingdon Communities Trust. The deed of gift to the Trust carries a requirement that grants must benefit the community in the southern part of the Borough of Hillingdon including Hayes (the wards of Botwell, Townfield and Pinkwell, West Drayton, Yiewsley and the Heathrow Villages).
LHR Communities Trust	£780,000	The Group supports this charity by providing donations based on noise pollution fines charged to airlines. The charity provides support for local community projects close to Heathrow with a priority on funding projects linked to education, the environment and economic generation.
Oxfam	£282,000	The Group joined Oxfam in a three year partnership in 2013; this broadly recognised charity helps to fight poverty worldwide. Donations are made based on foreign exchange collections in the airport terminals and employee fundraising.
Dreamflight	£10,000	Provides children with serious illness or disability with their holiday of a lifetime.

Internal controls and risk management

The Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of these policies have been disclosed in the Internal controls and risk management section of the Strategic report.

Heathrow Airport Holdings Limited

Directors' report *continued*

Financial risk management objectives and policies

The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk has been disclosed in the Internal controls and risk management section of the Strategic report and in Note 18 of the Group financial statements.

Subsequent events

In January 2015, the trustee of the Group's defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustee's actuarial assumptions. LHR Airports Limited agreed an increase to its annual deficit recovery payment from £24 million to £27 million until 2023. In respect of future accrual of benefits LHR Airports Limited will contribute approximately 33% of basic salary and shift pay, which is estimated to be £46 million in 2015.

On 11 February 2015, the Group raised €750 million of fixed rate debt through the issue of a Eurobond. The bond carries a coupon of 1.500% and matures in 2030.

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgement is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

Auditor

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

Statement of disclosure of information to the Auditor

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

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

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

On behalf of the Board



José Leo
Director

23 February 2015

Company registration number: 05757208

Heathrow Airport Holdings Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual report and 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 Group financial statements in accordance with IFRSs as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group and company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

In preparing the parent company 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

On behalf of the Board



José Leo
Director

23 February 2015

Heathrow Airport Holdings Limited

Independent auditor's report to the members of Heathrow Airport Holdings Limited

We have audited the Group financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2014 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and Directors' reports for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

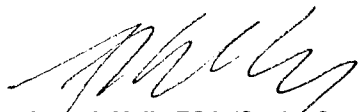
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

Other matter

We have reported separately on the parent company financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2014.



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

23 February 2015

Heathrow Airport Holdings Limited

Consolidated income statement

	Note	Year ended 31 December 2014			Restated ¹ Year ended 31 December 2013		
		Before certain re-measurements	Certain re-measurements ²	Total	Before certain re-measurements	Certain re-measurements ²	Total
		£m	£m	£m	£m	£m	£m
Continuing operations							
Revenue	1	2,691	-	2,691	2,473	-	2,473
Operating costs	2	(1,736)	-	(1,736)	(1,561)	-	(1,561)
Other operating items							
Fair value gain on investment properties	9	-	46	46	-	62	62
Operating profit	1	955	46	1,001	912	62	974
<i>Analysed as:</i>							
Operating profit before exceptional items		981	46	1,027	958	62	1,020
Exceptional items	3	(26)	-	(26)	(46)	-	(46)
Financing							
Finance income	4a	237	-	237	233	-	233
Finance costs	4a	(980)	-	(980)	(836)	-	(836)
Fair value loss on financial instruments	4b	-	(153)	(153)	-	(69)	(69)
		(743)	(153)	(896)	(603)	(69)	(672)
Profit/(loss) before tax		212	(107)	105	309	(7)	302
Taxation before change in tax rate		(47)	13	(34)	(59)	12	(47)
Change in tax rate		-	-	-	139	18	157
Taxation	5	(47)	13	(34)	80	30	110
Profit/(loss) for the year from continuing operations		165	(94)	71	389	23	412
Profit from discontinued operations ³	6	231	6	237	281	16	297
Consolidated profit/(loss) for the year⁴		396	(88)	308	670	39	709

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² Certain re-measurements consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and the associated tax impact of these and similar cumulative prior year items.

³ Includes the results of the NDH1 Group, Stansted airport, and adjustments relating to previous disposals.

⁴ Attributable to owners of the parent.

Heathrow Airport Holdings Limited

Consolidated statement of comprehensive income

	Year ended 31 December 2014	Restated ¹ Year ended 31 December 2013
Note	£m	£m
Profit for the year	308	709
Other comprehensive income:		
Items that will not be subsequently reclassified to the consolidated income statement		
<i>Continuing operations</i>		
Actuarial loss on pensions	20,26 (152)	(58)
Change in tax rate	26 -	(33)
Tax relating to indexation of operating land	26 1	(1)
Items that may be subsequently reclassified to the consolidated income statement		
<i>Continuing operations</i>		
Available-for-sale investments		
Loss taken to equity	26 -	(1)
Cash flow hedges		
(Loss)/profit taken to equity	26 (174)	174
Transferred to income statement	26 148	(8)
<i>Discontinued operations</i>		
Cash flow hedges		
(Loss)/profit taken to equity	26 (10)	8
Transferred to income statement	26 13	14
Recycled to income statement on disposal of subsidiary	6,26 30	-
Currency translation		
Loss taken to equity	26 (1)	-
Recycled to income statement on liquidation of subsidiary	6,26 (12)	-
Other comprehensive (loss)/income for the year net of tax	(157)	95
Total comprehensive income for the year²	151	804

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group and BAA Italia in discontinued operations (Note 6).

² Attributable to equity holders of the parent.

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 26.

Heathrow Airport Holdings Limited

Consolidated statement of financial position

	Note	31 December 2014 £m	31 December 2013 £m
Assets			
Non-current assets			
Property, plant and equipment	8	11,571	11,958
Investment properties	9	2,054	2,187
Intangible assets	10	2,894	3,084
Available-for-sale investments	11	26	26
Derivative financial instruments	17	172	173
Trade and other receivables	13	116	132
		16,833	17,560
Current assets			
Inventories	12	10	10
Trade and other receivables	13	426	288
Derivative financial instruments	17	2	135
Restricted cash	14	10	16
Cash and cash equivalents	15	323	143
		771	592
Total assets		17,604	18,152
Liabilities			
Non-current liabilities			
Borrowings	16	(12,195)	(11,795)
Derivative financial instruments	17	(1,334)	(1,177)
Deferred income tax liabilities	19	(935)	(1,084)
Retirement benefit obligations	20	(228)	(121)
Provisions	22	(11)	(13)
Trade and other payables	23	(6)	(6)
		(14,709)	(14,196)
Current liabilities			
Borrowings	16	(929)	(878)
Derivative financial instruments	17	(1)	(2)
Provisions	22	(27)	(34)
Current income tax liabilities		(17)	(27)
Trade and other payables	23	(441)	(588)
		(1,415)	(1,529)
Total liabilities		(16,124)	(15,725)
Net assets		1,480	2,427
Equity			
Capital and reserves			
Share capital	24	2,666	2,666
Other reserves	25	(317)	(311)
Retained earnings	27	(869)	72
Total shareholder's equity		1,480	2,427

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 23 February 2015. They were signed on its behalf by:



John Holland-Kaye
Director



José Lec
Director

Heathrow Airport Holdings Limited

Consolidated statement of changes in equity

	Note	Attributable to owners of the parent			Total £m
		Share capital £m	Other reserves £m	Retained earnings £m	
1 January 2013		2,666	(478)	131	2,319
Comprehensive income:					
Profit for the year		-	-	709	709
Other comprehensive income:					
(Loss)/profit on re-measurement of the following:					
Available-for-sale investments	26	-	(1)	-	(1)
Cash flow hedges net of tax	26	-	188	-	188
Actuarial loss on pensions net of tax	20,26	-	-	(58)	(58)
Change in tax rate	26	-	(20)	(13)	(33)
Tax relating to indexation of operating land	26	-	-	(1)	(1)
Total comprehensive income		-	167	637	804
Transactions with owners:					
Dividends paid	7,27	-	-	(696)	(696)
Total transactions with owners		-	-	(696)	(696)
1 January 2014		2,666	(311)	72	2,427
Comprehensive income:					
Profit for the year		-	-	308	308
Other comprehensive income:					
Loss on re-measurement of the following:					
Cash flow hedges net of tax	26	-	(23)	-	(23)
Cash flow hedges recycled to income statement on disposal	6,26	-	30	-	30
Actuarial loss on pensions net of tax	20,26	-	-	(152)	(152)
Currency translation	26	-	(1)	-	(1)
Currency translation recycled to income statement on liquidation	6,26	-	(12)	-	(12)
Tax relating to indexation of operating land	26	-	-	1	1
Total comprehensive income		-	(6)	157	151
Transactions with owners:					
Dividends paid	7,27	-	-	(1,098)	(1,098)
Total transactions with owners		-	-	(1,098)	(1,098)
31 December 2014		2,666	(317)	(869)	1,480

Heathrow Airport Holdings Limited

Consolidated statement of cash flows

	<i>Note</i>	Year ended 31 December 2014 £m	Restated¹ Year ended 31 December 2013 £m
Cash flows from operating activities			
Cash generated from continuing operations	29	1,515	1,365
Group relief paid		-	(2)
Cash generated from discontinued operations		69	74
Net cash from operating activities		1,584	1,437
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(746)	(1,200)
Investment properties		(78)	(31)
Intangible assets		(32)	(46)
Proceeds on disposal of:			
Property, plant and equipment		-	4
Increase in term deposits		(170)	-
Disposal proceeds	6	1,045	1,500
Cash held by, and other cash movements of, discontinued operations	6	(81)	(111)
Utilisation of disposal proceeds	6	(355)	-
Net cash (used in)/from investing activities		(417)	116
Cash flows from financing activities			
Dividends paid	7	(1,098)	(696)
Proceeds from issuance of bonds		1,525	745
Repayment of bonds		(516)	(396)
Repayment of revolving credit facilities		(80)	(227)
(Repayment)/drawdown of subordinated facilities		(85)	35
Issuance of term note		100	-
Repayment of other facilities and other items		(56)	(215)
Decrease in amount owed to parent		(10)	(20)
Cancellation and restructuring of derivatives		9	(33)
Settlement of accretion on index-linked swaps		(185)	(177)
Interest paid		(569)	(511)
Interest received		5	5
Financing activities of discontinued operations		(35)	(72)
Net cash used in financing activities		(995)	(1,562)
Net increase/(decrease) in cash and cash equivalents		172	(9)
Cash and cash equivalents at beginning of year		159	168
Cash and cash equivalents at end of year	<i>15</i>	331	159
Represented by:			
Cash and cash equivalents		333	159
Overdrafts		(2)	-
Cash and cash equivalents at end of year	<i>15</i>	331	159

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

Heathrow Airport Holdings Limited

Accounting policies

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

Basis of accounting

The Group financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU') and prepared under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

Primary financial statements format

The primary financial statements are presented in accordance with IFRS and International Accounting Standard ('IAS') 1 'Presentation of Financial Statements'.

A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses. These items are:

- 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; and
- iii the associated tax impacts of the items in (i) and (ii) above and similar cumulative prior year items.

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 Group has adequate resources to continue in operational existence for the foreseeable future.

Consequently the directors have reviewed the cash flow projections of the Group taking into account:

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (refer to Recent financing activities in the Financial review and Note 18).

Whilst the Group is in a net current liability position, as a result of the review, having made appropriate enquiries of management, the directors have a reasonable expectation that sufficient funds will be available to meet the Group's funding requirement for the twelve months following the date the consolidated statement of financial position was signed.

Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

There were no new IFRSs which became effective for the first time in 2014. However, the EU endorsed the consolidation package of five standards comprising:

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 27 (revised) Separate Financial Statements; and
- IFRS 28 (revised) Investments in Associates and Joint Ventures.

These were effective for periods commencing on or after 1 January 2014, but had no impact on the results of the Group.

(b) Standards, amendment and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

The following standards, amendments and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments;
- IFRS 7 (amended) Disclosures - Offsetting Financial Assets and Financial Liabilities;
- IFRS 14 Regulatory Deferral Accounts;
- IFRS 15 Revenue from contracts with customers
- IAS 19 Defined Benefit Plans: Employee Contributions (amendments);
- Annual improvements to IFRSs 2010-2012, 2011-2013 and 2012-2014; and
- Amendments to IFRS 10 and IAS 38: Clarification of acceptable methods of depreciation and amortisation.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Changes in accounting policy and disclosures *continued*

The adoption of IFRS 9 Financial Instruments may widen the ability to hedge accounting within the group financial statements. During 2015 the Group will review IFRS 15 to determine the impact (if any) on both revenue recognition and disclosure of contracts, although no material impact is expected. The Group does not fall within the scope of IFRS 14 Regulatory Deferral Accounts as it is neither a first time adopter of IFRS nor allowed to account for regulatory deferral account balances under our previous GAAP.

The Group does not expect the adoption of any of the other standards listed above to have a material impact on the Group financial statements.

Business combinations

Basis of consolidation

The Group financial statements consolidate the financial statements of Heathrow Airport Holdings Limited and all its subsidiaries together with any share of profits (net of interest and tax) and net assets of joint venture undertakings accounted for using the equity method.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Inter-group balances and transactions of the continuing operations are eliminated during the consolidation process.

Transactions with non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's share of equity. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Segment reporting

Information reported to the Board for the purposes of resource allocation and assessment of segmental performance relates to the operations of Heathrow, Heathrow Express and Other operations. The Other operations segment consists of corporate activities and other commercial operations.

Revenue

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.

Aeronautical

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

Retail

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

Property and operational facilities

- 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.
- Usage charges made for operational systems (e.g. check-in desks), recognised as each service period is provided.
- Other invoiced sales, recognised on the performance of the service.

Other

- Rail ticket sales, recognised at the time of travel.
- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Contributions

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

Exceptional items

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

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

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

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Finance income 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 is then charged to the income statement as a depreciation expense over the life of the relevant asset.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

Assets classified as held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management are committed to the sale and the sale is expected to be completed within one year of the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Discontinued operations

Discontinued operations consist of a component of the Group that has either been sold during the year or are classified as held-for-sale at year end and represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation.

Property, plant and equipment

Operational assets

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

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Group. The Group 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.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Property, plant and equipment *continued*

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:

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

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

Impairment of assets (excluding goodwill)

The Group 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 Group 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the reporting date, as determined by the directors and supported by external valuers every year. 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.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Goodwill and Right to operate

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Identifiable assets, liabilities and contingent liabilities are grouped in cash generating units which are organised and managed separately. Goodwill arising on acquisition of subsidiaries is capitalised as an intangible asset and carried at cost less accumulated impairment losses. Goodwill is not amortised but is subject to an impairment review at least annually or more frequently if there is an indication that the carrying value of goodwill may be impaired and indicators of potential impairment are ordinarily market based. Any impairment is recognised immediately in the income statement. An impairment loss recognised in respect of goodwill is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Right to operate

Right to operate relates to the NDH1 Group's permission to levy charges indefinitely on airline carriers for the use of airport infrastructure. The NDH1 Group was sold on 18 December 2014. Right to operate is not amortised but is subject to an annual impairment test. Any impairment loss is charged immediately in the income statement. An impairment loss recognised in respect of this indefinite life intangible asset is only revised if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Internally-generated intangible assets

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

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

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

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

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

Other intangible assets

Intangible assets acquired separately or as a result of a business acquisition are capitalised at cost which is considered to equal their fair value at that date. Where amortisation is charged on these assets, the expense is taken to the income statement through operating costs.

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.

Group as a lessee

Finance leases, which transfer to the Group 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 Group will obtain ownership by the end of the lease term.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Leases *continued*

Group as a lessor

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

Inventories

Inventories are stated at the lower of cost and net realisable value.

Restricted cash

Cash that can only be used for a specific purpose or where access is restricted is classified as restricted cash.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts. Short-term deposits with an original maturity of over three months are shown within current trade and other receivables.

Deferred income

Amounts received prior to the delivery of goods and services are recorded as deferred income and released to the income statement as they are provided.

Provisions

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

Restructurings

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

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Financial instruments

Trade and other receivables

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

Investments

On initial recognition, financial assets are measured at fair value, plus, in the case of investments not at fair value through the income statement, directly attributable transaction costs. After initial recognition, investments that are classified as 'held-for-trading' and 'available-for-sale' are measured at fair value. Fair value gains or losses on investments held-for-trading are recognised in the income statement. Fair value gains or losses on available-for-sale investments are recognised in a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative fair value gain or loss previously reported in equity is included in the income statement. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indication that the security is impaired. If impairment is indicated, the cumulative fair value gain or loss previously reported in equity is included in the income statement.

Assets classified as 'loans and receivables' or 'held-to-maturity' are recognised in the statement of financial position at their amortised cost, using the effective interest method, less any provision for impairment.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Financial instruments *continued*

Investments *continued*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are carried at amortised cost using the effective interest method. Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold-to-maturity are classified as 'held-to-maturity' and are carried at amortised cost using the effective interest method. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are de-recognised or impaired, as well as through the amortisation process.

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

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

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

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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. 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.

For index-linked borrowings, the nominal amount is adjusted for movements in the relevant price index. This accretion expense is recorded within finance costs in the income statement.

Bond 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.

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.

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 Group 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 Group 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 Group also documents, both at hedge inception and on an on-going 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 hedging 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. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Financial instruments *continued*

Fair value hedge

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 of the hedged asset or liability that are attributable to the hedged risk.

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. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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 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 the income statement

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 fair value hedge or a cash flow hedge of interest rate risk, 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 gross 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 Group's derivatives is reflected in its derivative valuations. This credit factor is adjusted over time to reflect the reducing tenor of the instrument and is updated where the credit associated with the derivative has clearly changed based on market transactions and prices.

Embedded derivatives

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

Net debt

Net debt comprises the Group's external consolidated borrowings excluding interest accruals, net of cash and cash equivalents and term deposits, and excludes restricted cash.

Employee benefits

Pension obligations

The Group operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution pension schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The total cost of defined contribution pension arrangements are expensed as employment costs. The Group has no further payment obligations once the contributions have been paid.

The Group's primary defined benefit UK pension fund is a self-administered defined benefit scheme now closed to new employees. The defined benefit obligation or surplus is calculated quarterly by independent actuaries using the projected unit credit method. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the statement of financial position.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Employee benefits *continued*

Pension obligations *continued*

The amount of income or expenditure recognised in the income statement as employment costs, in relation to the defined benefit pension scheme, comprises the current service costs and past service costs. The net interest on the defined benefit asset or liability is recognised within financing costs.

Any difference between the interest credit on the assets and the return actually achieved is recognised in the statement of comprehensive income as a remeasurement gain or loss along with differences which arise from experience or assumption changes.

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

Share based payments

The option plans are accounted for as cash-settled share-based payment transactions in accordance with the grant being made over Ferrovial S.A. shares and the Group has an obligation to settle the share-based payment transaction.

For cash-settled share-based payments, a liability is recognised for the services acquired, measured initially at the fair value of the liability. At each statement of financial position date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the income statement for the year.

The Group has a number of cash-settled equity swaps that are treated as derivative financial instruments and are intended to hedge the future cash flows required on potential exercise of the options. The fair value of these equity swap arrangements is recorded in the statement of financial position with the gain or loss incurred in the period recorded within financial income or expense.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxation is determined using the tax rates and laws that have been enacted or substantively enacted, by the reporting date, and are expected to apply when the related deferred tax asset or liability is realised or settled.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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 account.

Dividend distribution

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

Heathrow Airport Holdings Limited

Accounting policies *continued*

Foreign currency

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

Transactions denominated in foreign currencies are translated into the functional currency of the entity 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, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale investments, are recognised in equity within the fair value reserve.

The results of Group entities (none of which has a functional currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (Sterling) are translated into Sterling at the average exchange rate and the statements of financial position are translated at exchange rates at the reporting date. Exchange differences arising on retranslation are taken directly to a separate component of equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates at the reporting date.

Heathrow Airport Holdings Limited

Significant accounting judgements and estimates

In applying the Group'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 Group's accounting policies

Investment properties

Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors. The valuations were prepared in consideration of IFRS 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. Approximately 80% (2013: 83%) of the investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility than the overall market. Independent valuations were obtained for all of the investment properties.

Estimated impairment of goodwill and indefinite life intangible assets

The Group annually tests whether goodwill has suffered any impairment, as stated in the Accounting policies. The recoverable amounts of cash-generating units have been determined based on fair value less cost to sell. These calculations require the use of assumptions, the details of which have been disclosed in Note 10, together with sensitivity analysis where appropriate.

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period end and charges to the income statement. The factors have been determined in consultation with the Group'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 Group'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 Group 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 20.

Taxation

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

Capitalisation

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

Key sources of estimation uncertainty

Hedge accounting

Interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of forecast transactions or existing liabilities. Forecast transactions are based on management's expectation that it is highly probable that future Sterling funding issuances will be used to refinance existing debt. As at 31 December 2014, £410 million of fair value losses (2013: £456 million) on these derivatives have been deferred into the cash flow hedge reserve.

Management compares on a regular basis existing hedging arrangements against expectations for future financing. If there were significant changes in the expected quantum of future Sterling financing, this may require the recycling of the cash flow hedge reserve through the income statement.

Fair value of derivative financial instruments

The fair value of derivative financial instruments is calculated using a discounted cash flow approach and using inputs based on observable market data. Where material, the credit risk associated with the derivatives is reflected in its calculation methodology. Judgement is used to determine whether the credit risk associated with the derivatives has changed materially over time based on market transactions and prices and, where this is the case, the credit factor is adjusted in the valuation calculation.

Heathrow Airport Holdings Limited

Notes to the Group financial statements

1 Segment information

As described in the Accounting policies on page 36, the Group's operating segments, following the disposal of the NDH1 Group, are Heathrow, Heathrow Express and Other operations.

The 'Other operations' segment consists of corporate activities and other commercial operations.

The performance of the above segments is measured on a revenue and EBITDA basis, before certain re-measurements, and both pre and post exceptional items.

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

The performance of the NDH1 Group, which was classified as held-for-sale and then sold in 2014, and Stansted airport, which was sold in February 2013, is distinguished from the performance of continuing Group operations through their classification as discontinued operations.

Table (a) details total revenue from external customers for the year ended 31 December 2014 and is broken down into aeronautical, retail, property and facilities, 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 EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2013.

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

Table (d) details asset, liability and capital expenditure information by reportable segment. The assets and liabilities information by segment is not provided to the Board, but is included in this note as additional information.

Section (e) details revenue and non-current asset information by geographical segment.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

1 Segment information *continued*

Table (a) Year ended 31 December 2014

	Segment revenue					EBITDA		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional (Adjusted EBITDA) ¹ £m	Operating exceptional items ² £m	Post exceptional £m
Heathrow	1,706	503	285	65	2,559	1,493	(26)	1,467
Heathrow Express	-	-	-	129	129	74	-	74
	1,706	503	285	194	2,688	1,567	(26)	1,541
Other operations	-	1	-	2	3	-	-	-
Total	1,706	504	285	196	2,691	1,567	(26)	1,541

Reconciliation to statutory information

Unallocated income and expense

Depreciation and amortisation (table (c))	(586)
Operating profit (before certain re-measurements)	955
Fair value gain on investment properties (certain re-measurements)	46
Operating profit	1,001
Finance income	237
Finance costs	(980)
Fair value loss on financial instruments (certain re-measurements)	(153)
Profit before tax	105
Taxation before certain re-measurements	(47)
Taxation (certain re-measurements)	13
Taxation	(34)
Profit for the year – continuing operations	71
Profit from discontinued operations (Note 6)	237
Consolidated profit for the year	308

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

² Operating exceptional items for segmental reporting purposes excludes £26 million relating to restructure costs and Heathrow Terminal 2 operational readiness costs when compared to statutory reporting (Note 3).

Revenues of £895 million were derived from a single external customer. £877 million has been included in the Heathrow segment and £18 million included within discontinued operations.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

1 Segment information *continued*

Table (b) Year ended 31 December 2013 (Restated¹)

	Segment revenue					EBITDA		
	Aero-nautical £m	Retail ² £m	Property & facilities £m	Other ² £m	Total external revenue £m	Pre exceptional (Adjusted EBITDA) ³ £m	Operating exceptional items ⁴ £m	Post exceptional £m
Heathrow	1,523	491	269	62	2,345	1,348	(38)	1,310
Heathrow Express	-	-	-	124	124	73	-	73
	1,523	491	269	186	2,469	1,421	(38)	1,383
Other operations	-	1	-	3	4	(5)	(8)	(13)
Total	1,523	492	269	189	2,473	1,416	(46)	1,370

Reconciliation to statutory information

Unallocated income and expense

Depreciation and amortisation (table (c))	(458)
Operating profit (before certain re-measurements)	912
Fair value gain on investment properties (certain re-measurements)	62
Operating profit	974
Finance income	233
Finance costs	(836)
Fair value loss on financial instruments (certain re-measurements)	(69)
Profit before tax	302
Taxation before certain re-measurements	80
Taxation (certain re-measurements)	30
Taxation	110
Profit for the year – continuing operations	412
Profit from discontinued operations (Note 6)	297
Consolidated profit for the year	709

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² The presentation of balances for the year ended 31 December 2013 has been restated to include fees paid by retailers for secure logistics services provided at the airport within retail income instead of other income. These fees totalled £4 million in the year ended 31 December 2013.

³ Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.

⁴ Operating exceptional items for segmental reporting purposes excludes £46 million relating to restructure costs, Heathrow Terminal 2 operational readiness costs and VAT costs when compared to statutory reporting (Note 3).

Revenues of £747 million were derived from a single external customer. £729 million has been included in the Heathrow segment and £18 million included within discontinued operations.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

1 Segment information *continued*

Table (c)	Year ended 31 December 2014			Restated ¹ Year ended 31 December 2013		
	Depreciation and amortisation ² £m	Fair value gain ³ £m	Profit on disposals £m	Depreciation and amortisation ² £m	Fair value gain ³ £m	Profit on disposals £m
Heathrow	538	46	-	414	62	-
Heathrow Express	43	-	-	42	-	-
	581	46		456	62	
Other operations	5	-	-	2	-	-
Continuing operations	586	46	-	458	62	-
Discontinued operations	28	7	223	33	15	148
Total	614	53	223	491	77	148

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² Includes intangible asset amortisation and impairment of £34 million (2013: £26 million).

³ Reflects fair value gains on investment properties only.

Table (d)	31 December 2014			31 December 2013		
	Assets ² £m	Liabilities £m	Capital expenditure £m	Assets ² £m	Liabilities £m	Restated ¹ Capital expenditure £m
Heathrow	15,975	(358)	718	15,525	(511)	1,309
Heathrow Express	1,003	(9)	12	1,027	(6)	11
	16,978	(367)	730	16,552	(517)	1,320
NDH1 Group						
Glasgow	-	-	-	572	(24)	-
Aberdeen	-	-	-	321	(10)	-
Southampton	-	-	-	116	(5)	-
	-	-	-	1,009	(39)	-
Other operations	93	(118)	-	98	(85)	-
Discontinued operations ³	-	-	19	-	-	26
Total operations	17,071	(485)	749	17,659	(641)	1,346
Unallocated assets and liabilities:						
Cash, borrowings and available-for-sale investments	359	(13,124)		185	(12,673)	
Derivative financial instruments	174	(1,335)		308	(1,179)	
Retirement benefit obligations	-	(228)		-	(121)	
Taxation	-	(952)		-	(1,111)	
Total	17,604	(16,124)	749	18,152	(15,725)	1,346

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² Segment assets include primarily airport runways and facilities as well as goodwill and right to operate allocated to the reportable segments.

³ At 31 December 2013 discontinued operations also included Stansted airport.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

1 Segment information *continued*

Section (e)

Heathrow Airport Holdings Limited is domiciled in the UK. All revenue from external customers for continuing operations comes from the UK which for the year ended 31 December 2014 was £2,691 million (2013: £2,473 million). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

Non-current assets excluding derivative financial instruments were £16,661 million (2013: £17,387 million). There were no non-current assets held outside the UK (2013: £nil).

2 Operating costs – continuing operations

Operating costs, including exceptional items, include the following.

	Year ended 31 December 2014 £m	Restated ¹ Year ended 31 December 2013 £m
Employment costs		
Wages and salaries	332	341
Social security	32	33
Pensions	61	63
Share-based payments	1	-
Contract and agency staff	18	24
Other staff related	16	27
	460	488
Depreciation, amortisation and impairment		
Property, plant and equipment	552	432
Intangible assets	34	26
	586	458
Other operating costs		
Maintenance expenditure	196	179
Utility costs	100	95
Rents and rates	137	124
General expenses	293	266
Retail expenditure	23	24
Police	29	29
	778	717
Own work capitalised	(88)	(102)
Total operating costs	1,736	1,561
Analysed as:		
Adjusted operating costs	1,124	1,057
Depreciation, amortisation and impairment	586	458
Exceptional costs (Note 3)	26	46
Total operating costs	1,736	1,561

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

The table below analyses operating costs into categories representing their underlying nature to enable a more meaningful comparison year on year.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

2 Operating costs – continuing operations *continued*

	Year ended 31 December 2014	Restated ¹ Year ended 31 December 2013
	£m	£m
Employment costs	401	403
Maintenance expenditure	179	165
Utility costs	95	85
Rents and rates	133	117
General expenses	294	262
Retail expenditure	22	25
Total adjusted operating costs	1,124	1,057
Depreciation and amortisation	586	458
Exceptional costs (Note 3)	26	46
Total operating costs	1,736	1,561

Rentals under operating leases

	Year ended 31 December 2014	Restated ¹ Year ended 31 December 2013
	£m	£m
Operating costs include:		
Plant and machinery	33	30
Other	18	18
	51	48
Property lease and sub-lease charges – minimum lease payments	16	15

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

Auditor's remuneration

	Year ended 31 December 2014	Year ended 31 December 2013
	£m	£m
Fees payable to the Company's auditor for the audit of the Group's annual accounts		
The audit of the Company's subsidiaries pursuant to legislation ¹	0.4	0.5
Total audit fees	0.4	0.5
Fees payable to the Company's auditor and their associates for other services to the Group		
Audit related assurance services	0.2	0.3
Other tax services	0.2	0.1
Other assurance services	0.2	0.2
Total non-audit fees	0.6	0.6
Total fees²	1.0	1.1

¹ Fees payable to the Company's auditor for the audit of the Company's annual accounts was £21,000 (2013: £21,000).

² Auditor's remuneration includes services provided for both continuing and discontinued operations.

Employee numbers

The average monthly number of employees (including executive directors) within the Group was as follows:

	Year ended 31 December 2014	Restated ¹ Year ended 31 December 2013
Continuing operations		
<i>United Kingdom</i>		
Airports	6,441	6,271
Other operations	606	607
	7,047	6,878
Discontinued operations		
<i>United Kingdom</i>		
Airports	954	2,197
Total	8,001	9,075

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

2 Operating costs – continuing operations *continued*

Management and directors' remuneration

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Key management compensation¹		
Salaries and short-term employee benefits ^{2,3}	8,172	9,612
Sum paid to related parties for directors' services	1,080	1,200
Termination benefits	-	758
	9,252	11,570

¹ Key management of the Company is the Board of Directors and members of the Executive Committee of Heathrow Airport Holdings Limited who control and direct the Group's operational activities and resources.

² For the year ended 31 December 2014 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

³ £2,865,000 of bonus was paid in cash in 2014 (2013: £2,152,000).

Key management participates in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three period. Key management's compensation includes £995,000 payable in 2015 (2013: £1,123,000 paid in 2014) in respect of the 2012 LTIP Plan after certain targets were met over the three year period from 2012 to 2014. As the financial performance in respect of the 2013 and 2014 Plans is so uncertain at this stage, no value in relation to these awards is included above.

Directors' remuneration

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Aggregate emoluments ^{1,2}	3,189	3,628
Sums paid to related parties for directors' services	1,080	1,200
	4,269	4,828

¹ For the year ended 31 December 2014 aggregate emoluments includes salaries, allowances, director fees, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

² £1,354,000 of bonus was paid in cash in 2014 (2013: £903,000).

The directors participate in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The directors' remuneration includes £221,000 payable in 2015 (2013: £784,000 paid in 2014) in respect of the 2012 LTIP Plan after certain targets were met over the three year period from 2012 to 2014. As the financial performance in respect of the 2013 and 2014 Plans is so uncertain at this stage, no value in relation to these awards is included above.

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

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

Highest paid director

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Salary and allowances	975	1,110
Bonus accrued	-	857
Amount accrued under LTIP	-	320
	975	2,287

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

2 Operating costs – continuing operations *continued*

Management and directors remuneration *continued*

In 2014 no company pension contributions were made in respect of the highest paid director (2013: none) but an amount was instead paid within salary and allowances. During the year, the highest paid director had no retirement benefits accruing to him under a defined benefit scheme and no retirement benefits accruing to him under a defined contribution scheme. £998,000 of bonus was paid in cash in 2014 (2013: £771,000).

The highest paid director participates in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The highest paid director's remuneration includes £nil payable in 2015 (2013: £741,000 paid in 2014) in respect of the 2012 LTIP Plan after certain targets were met over the three year period from 2012 to 2015. As the financial performance in respect of the 2013 and 2014 Plans is so uncertain at this stage, no value in relation to these awards is included above.

3 Exceptional items – continuing operations

	Year ended 31 December 2014	Year ended 31 December 2013
	£m	£m
Restructure	(8)	(22)
Heathrow Terminal 2 operational readiness	(18)	(16)
VAT costs	-	(8)
Exceptional items before income tax	(26)	(46)
Tax credit on exceptional items	5	8
Exceptional items after tax	(21)	(38)

Costs associated with the Group's change programmes were £8 million (2013: £22 million). The charge relates to severance and pension payments associated with a restructuring programme carried out in 2013 and 2014.

Operational readiness costs of £18 million (2013: £16 million) are associated with managing the opening of Terminal 2 and were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its operational phase opening on 4 June 2014.

In 2013, following the Supreme Court's refusal to allow the Group to appeal a decision of the Court of Appeal, the Group could no longer contest HMRC's refusal to refund £8 million relating to VAT it incurred on costs associated with the acquisition of BAA plc in 2006. The balance maintained during the course of the appeal process was therefore charged to the income statement.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

4 Financing – continuing operations

(a) Net finance costs

	Year ended 31 December 2014 £m	Restated ¹ Year ended 31 December 2013 £m
Finance income		
Income from available-for-sale financial assets	3	2
Interest receivable on derivatives not in hedge relationship	231	228
Interest on deposits	3	3
	237	233
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments ²	(580)	(578)
Bank loans and overdrafts and related hedging instruments	(84)	(111)
Amortisation on bond redemption ³	(62)	-
Interest payable on derivatives not in hedge relationship ⁴	(323)	(291)
Facility fees and other charges	(16)	(16)
Net pension finance costs	(3)	(3)
Unwinding of discount on provisions	(1)	(1)
Total borrowing costs	(1,069)	(1,000)
Less: capitalised borrowing costs ⁵ (Note 8)	89	164
	(980)	(836)
Net finance costs before certain re-measurements	(743)	(603)

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² Includes accretion charge of £20 million (2013: £20 million) on index-linked bonds and a one-off non-cash amortisation credit of £24 million (2013: £nil million) released from the cash flow hedge reserve relating to residual balances remaining on maturity of certain swaps in hedge relationship.

³ Amortisation on bond redemption includes a one-off non-cash £61 million amortisation charge recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedge relationship. A deferred tax credit of £12 million relating to the amortisation charge has been recognised within the tax charge.

⁴ Includes accretion charge of £139 million (2013: £182 million) on index-linked swaps.

⁵ 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 5.87% (2013: 6.04%) to expenditure incurred on such assets.

(b) Fair value loss on financial instruments

	Year ended 31 December 2014 £m	Restated ¹ Year ended 31 December 2013 £m
Interest rate swaps: ineffective portion of cash flow hedges	3	23
Interest rate swaps: not in hedge relationship	(196)	54
Cross-currency swaps: ineffective portion of cash flow hedges	9	2
Cross-currency swaps: ineffective portion of fair value hedges	3	(14)
Index-linked swaps: not in hedge relationship ²	26	(147)
Equity swaps: not in hedge relationship	1	12
Fair value re-measurements of foreign exchange contracts and currency balances	1	1
Total fair value loss on financial instruments	(153)	(69)
Net finance costs	(896)	(672)

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

² Reflects the impact on the valuation of movements in implied future inflation and interest rates, and accounting adjustment in respect of accretion.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

5 Taxation – continuing operations

	Year ended 31 December 2014 £m	Restated ¹ Year ended 31 December 2013 £m
UK corporation tax		
Current tax at 21.5% (2013: 23.25%)	-	(11)
Over provision in respect of prior years	3	2
Deferred tax		
Current year	(34)	(42)
Prior year	(3)	4
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	-	157
Taxation (charge)/credit for the year	(34)	110

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

The tax (charge)/credit on the Group'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 Group.

	Year ended 31 December 2014 £m	Restated ¹ Year ended 31 December 2013 £m
Profit before tax	105	302
Reconciliation of the tax (charge)/credit		
Tax calculated at the UK statutory rate of 21.5% (2013: 23.25%)	(23)	(70)
Adjustments in respect of current income tax of previous years	3	2
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	-	157
(Non-deductible expenses)/non-taxable income	(11)	17
Adjustments in respect of deferred income tax of previous years	(3)	4
Taxation (charge)/credit for the year	(34)	110

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

The tax charge recognised for the year was £34 million (2013: £110 million credit). Based on a profit before tax for the year of £105 million (2013: £302 million), this results in an effective tax rate of 32.4% (2013: negative 36.4%).

During the year ended 31 December 2013, the Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result, the Group's deferred tax balances, which were previously provided at 23%, were re-measured at a rate of 20% resulting in a £157 million credit to the income statement.

Excluding the impact of the change in tax rate, the tax charge recognised for the year on ordinary activities of £34 million (2013: £47 million) results in an effective tax rate of 32.4% (2013: 15.6%). The tax charge is more (2013: less) than implied by the statutory rate of 21.5% (2013: 23.25%) primarily due to non-deductible expenses (2013: non-taxable income).

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

6 Discontinued operations

Discontinued operations represent components of the Group that have been disposed of or classified as held-for-sale during the year. In accordance with IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', the results and cash flows of these 'disposal groups' are reported separately from the performance of continuing operations at each reporting date.

On 18 December 2014 the Group completed the disposal of its 100% shareholding in Airport Holdings NDH1 Limited to AGS Airports Limited, which is owned by Macquarie European Investment Fund 4 and Ferrovial Aeropuertos S.A., in an arms-length transaction. Airport Holdings NDH1 Limited was the holding company of a group of companies (together, the 'NDH1 Group') that principally owned and operated three airports in the UK located in Glasgow, Aberdeen and Southampton. It was sold for a cash consideration of £1,045 million and generated a profit on disposal of £200 million.

On 14 November 2014 BAA Italia Spa ('BAA Italia'), a wholly-owned subsidiary, was liquidated. This generated a profit of £15 million primarily due to the recycling of currency translation from equity.

On 28 February 2013 the Group completed the disposal of its 100% shareholding in Stansted Airport Limited ('Stansted airport') to Manchester Airports Group for a cash consideration of £1,500 million, generating a profit on disposal of £147 million. Stansted airport had been classified as held-for-sale in 2012.

The results from all discontinued operations included in the consolidated income statement have been disclosed below and include adjustments relating to previous disposals. The profit on disposal of discontinued operations has also been disclosed, together with an analysis of the cash flows reported in the consolidated statement of cash flows.

Discontinued operations - consolidated income statement

	Year ended 31 December 2014			Restated ^{1,2} Year ended 31 December 2013		
	Before certain re-measurements	Certain re-measurements	Total	Before certain re-measurements	Certain re-measurements	Total
	£m	£m	£m	£m	£m	£m
Revenue	174	-	174	211	-	211
Operating costs						
Depreciation and amortisation	(28)	-	(28)	(33)	-	(33)
Other	(106)	-	(106)	(132)	-	(132)
Other items						
Fair value gain on investment properties	-	7	7	-	15	15
Operating profit	40	7	47	46	15	61
Profit on disposal of operations ³	223	-	223	148	-	148
Financing						
Finance costs	(29)	-	(29)	(34)	-	(34)
Fair value gain on financial instruments	-	1	1	-	-	-
	(29)	1	(28)	(34)	-	(34)
Profit before tax	234	8	242	160	15	175
Tax (charge)/credit	(3)	(2)	(5)	121	1	122
Profit for the year	231	6	237	281	16	297

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations.

² Includes the results of the NDH1 Group, Stansted airport, and adjustments relating to previous disposals.

³ Attributable primarily to the disposal of the NDH1 Group and the liquidation of BAA Italia in 2014, and the disposal of Stansted airport in 2013.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

6 Discontinued operations *continued*

Reconciliation of disposal proceeds to profit on disposal of discontinued operations

	Year ended 31 December 2014		
	NDH1 Group £m	Other £m	Total £m
Disposal proceeds	1,045	-	1,045
Disposal costs paid	(3)	(2)	(5)
	1,042	(2)	1,040
Repayment of capex and working capital facilities	(102)	-	(102)
Repayment of Senior term loan	(218)	-	(218)
Cancellation of derivatives	(35)	-	(35)
Utilisation of disposal proceeds	(355)	-	(355)
Net assets disposed			
Property, plant and equipment	(523)	-	(523)
Investment properties	(276)	-	(276)
Intangible assets	(188)	-	(188)
Other assets	(18)	-	(18)
Cash and cash equivalents	(34)	-	(34)
Borrowings	351	-	351
Derivatives	35	-	35
Deferred income tax liabilities	153	-	153
Other liabilities	25	-	25
	(475)	-	(475)
Disposal costs (accrued)/utilised/released	(11)	9	(2)
Cumulative net cash flow hedging (loss)/gain (Note 26)	(34)	4	(30)
Cumulative currency translation gain (Note 26)	-	12	12
Gain on transfer of retirement benefit obligations (Note 20)	33	-	33
	(1)	16	15
Profit on disposal	200	23	223

Disposal proceeds, cash held by, and other cash movements of, discontinued operations

	Year ended 31 December 2014		
	NDH1 Group £m	Other £m	Total £m
Disposal proceeds	1,045	-	1,045
Disposal costs	(3)	(2)	(5)
Cash and cash equivalents disposed of with subsidiary undertaking	(34)	-	(34)
Retirement benefit indemnity release payment paid to pension scheme	(20)	-	(20)
Purchase of property, plant and equipment	(22)	-	(22)
Cash held by, and other cash movements of, discontinued operations	(79)	(2)	(81)

Utilisation of disposal proceeds

Disposal proceeds were utilised to pay £670 million of dividends (Note 7), £355 million to repay facilities and cancel derivatives held by the NDH1 Group, and £20 million paid to the pension scheme in relation to a retirement benefit indemnity release. In addition, there will also be a pension commutation payment to be made later in 2015.

7 Dividends

During 2014, the Company made dividend payments totalling £1,098 million (2013: £696 million) comprising a £670 million one-off dividend following the disposal of the NDH1 Group (2013: £300 million on disposal of Stansted airport), £270 million (2013: £255 million) in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to the servicing of external debt at the Company's immediate holding companies (2013: £141 million related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries).

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

8 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings ¹ £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2013		8,190	1,210	293	106	1,245	2,517	13,561
Additions		10	-	5	-	-	1,263	1,278
Transfers to completed assets		226	18	67	19	44	(374)	-
Borrowing costs capitalised	4	-	-	-	-	-	164	164
Disposals		(95)	(1)	(63)	(1)	(29)	-	(189)
Transfers to/(from) investment properties	9	-	-	-	1	-	(12)	(11)
1 January 2014		8,331	1,227	302	125	1,260	3,558	14,803
Additions		-	-	3	-	-	636	639
Transfers to completed assets		2,663	114	468	10	11	(3,266)	-
Transfers to assets held-for-sale		(472)	(256)	(41)	(15)	-	(17)	(801)
Borrowing costs capitalised	4	-	-	-	-	-	89	89
Disposals ²		(125)	(3)	(44)	(5)	(2)	-	(179)
Transfers to investment properties	9	(10)	(2)	-	-	-	-	(12)
Reclassifications ²		174	1	117	5	27	-	324
31 December 2014		10,561	1,081	805	120	1,296	1,000	14,863
Depreciation and impairment								
1 January 2013		(1,916)	(248)	(145)	(24)	(232)	-	(2,565)
Charge for the year		(328)	(40)	(48)	(7)	(42)	-	(465)
Disposals		92	1	62	1	29	-	185
1 January 2014		(2,152)	(287)	(131)	(30)	(245)	-	(2,845)
Charge for the year		(418)	(46)	(68)	(5)	(43)	-	(580)
Transfers to assets held-for-sale		161	90	25	2	-	-	278
Disposals ²		125	4	44	5	1	-	179
Reclassifications ²		(174)	(1)	(117)	(5)	(27)	-	(324)
31 December 2014		(2,458)	(240)	(247)	(33)	(314)	-	(3,292)
Net book value								
31 December 2014		8,103	841	558	87	982	1,000	11,571
31 December 2013		6,179	940	171	95	1,015	3,558	11,958

¹ Other land and buildings are freehold except for certain short leasehold properties with a net book value of £9 million (2013: £17 million).

² Following the recent disposals of airports, the Group has reviewed the amounts presented within property, plant and equipment to ensure they appropriately reflect the value of assets still in continuing use in the business. This has resulted in certain amendments between cost and accumulated depreciation but has had no impact on the net book value of the balances reported.

Assets in the course of construction

The major balances in assets in the course of construction are for the Terminal 3 Integrated Baggage project, which will enable the processing of all its check in and transfer baggage under one roof, T2B Phase 2 and the Runway resurfacing project.

Borrowing costs capitalised

During the year ended 31 December 2014, borrowing costs of £89 million were capitalised (2013: £164 million). Capitalised borrowing costs for both continuing and discontinued operations were calculated by applying an average interest rate of 6.47% (2013: 6.37%) to expenditure incurred on qualifying assets.

A tax deduction of £89 million (2013: £164 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.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 16.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

9 Investment properties

	<i>Note</i>	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
1 January 2013		2,000	68	2,068
Additions		1	30	31
Transfers from property, plant and equipment	8	12	-	12
Revaluation ^{1,2}		44	33	77
Transfers to property, plant and equipment	8	(1)	-	(1)
1 January 2014		2,056	131	2,187
Additions		-	78	78
Transfers to completed assets ²		205	(205)	-
Transfers from property, plant and equipment	8	11	1	12
Revaluation ^{1,2}		49	4	53
Transfers to assets held-for-sale		(276)	-	(276)
31 December 2014		2,045	9	2,054

¹ £7 million gain related to the NDH1 Group prior to its classification as discontinued operations in 2014 (2013: £15 million) (Note 6).

² The revaluation in 2013 included £33 million in respect of a car park under construction at Terminal 2. This asset became operational in 2014. In 2014 the fair value was reduced by £64 million.

Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors (2013: CBRE Limited, Chartered Surveyors).

All valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. There were no restrictions on the realisability or remittance of income or proceeds on disposal. The fair value measurement hierarchy used in calculating fair value (refer to Note 18) has been classified as Level 3. The higher the discount rate, terminal yield 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 Group 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 £1 million (2013: £1 million) for which a similar amount is included within operating costs.

Security granted by the Group over its assets, including investment properties, is disclosed in Note 16.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

10 Intangible assets

	Goodwill £m	Right to operate £m	Software costs £m	Retail contracts £m	Other £m	Total £m
Cost						
1 January 2013	2,842	477	264	115	5	3,703
Additions	-	-	48	-	-	48
Disposals	-	-	(142)	-	-	(142)
1 January 2014	2,842	477	170	115	5	3,609
Additions	-	-	32	-	-	32
Disposals ¹	-	-	(26)	(36)	(5)	(67)
Transfers to assets held-for-sale	(86)	(477)	-	-	-	(563)
Reclassifications ¹	-	-	(21)	-	-	(21)
31 December 2014	2,756	-	155	79	-	2,990
Amortisation and impairment						
1 January 2013	(89)	(289)	(186)	(75)	(2)	(641)
Charge for the year	-	-	(19)	(7)	-	(26)
Disposals	-	-	142	-	-	142
1 January 2014	(89)	(289)	(63)	(82)	(2)	(525)
Charge for the year	-	-	(25)	(6)	-	(31)
Impairment	-	-	-	-	(3)	(3)
Transfers to assets held-for-sale	86	289	-	-	-	375
Disposals ¹	-	-	26	36	5	67
Reclassifications ¹	-	-	21	-	-	21
31 December 2014	(3)	-	(41)	(52)	-	(96)
Net book value						
31 December 2014	2,753	-	114	27	-	2,894
31 December 2013	2,753	188	107	33	3	3,084

¹ Following the recent disposals of airports, the Group has reviewed the amounts presented within intangibles to ensure they appropriately reflect the value of assets still in continuing use in the business. This has resulted in certain amendments between cost and accumulated amortisation but has had no impact on the net book value of the balances reported.

Goodwill and right to operate

Goodwill relates to the excess of the purchase consideration paid over the carrying values of the net assets of the Heathrow Airports Holdings Group, which was acquired in June 2006, and represents the potential for long term growth in the infrastructure and passenger traffic and tariffs.

Right to operate related to the NDH1 Group's permission to levy charges on airline carriers for the use of airport infrastructure. The NDH1 Group, which principally owned and operated three airports in the UK located in Glasgow, Aberdeen and Southampton was sold on 18 December 2014 (Note 6).

Goodwill and right to operate are allocated to the Group's cash-generating units ('CGUs'), identified as Heathrow.

A summary of the movements in the allocation by CGU is presented below.

	Goodwill		Right to operate		Total £m
	Heathrow £m		Glasgow £m	Aberdeen £m	
1 January 2014	2,753		101	87	188
Transfers to assets held-for-sale	-		(101)	(87)	(188)
31 December 2014	2,753		-	-	-

The recoverable amount of Heathrow has been calculated using the fair value less cost to sell methodology. Fair value has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant business plans over the period until year 2038. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection has been calculated applying a multiple of 1.15xRAB.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

10 Intangible assets *continued*

Goodwill and right to operate *continued*

An impairment test is a comparison of the carrying value of the assets of a CGU, to their recoverable amount calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, an impairment exists. The carrying value of goodwill at Heathrow was tested for impairment as at 31 December 2014. No impairment charges resulted.

The Group used as the starting base for Heathrow's long-term business plan the latest operational projections approved by the Board in November 2014. Projections beyond Q6 reflect Heathrow's plan presented to the Board of Directors in October 2014 being an update of the submission to the Davies Commission (including passenger forecasts, investment plans, expected income and cost) and the result of future settlements has been simulated.

Key assumptions

In determining the fair value of Heathrow, management has made a number of assumptions based on recent experience and is consistent with relevant external sources of information. The key assumptions used in determining Heathrow's recoverable amount are:

- Capital expenditure
From 2019 onwards, a series of major projects have been included covering the maintenance and replacement of existing assets, in order to add capacity to the existing infrastructure to meet forecast demand while maintaining the quality of the service. The projections submitted to the Airports Commission have been used for this purpose.
- Return allowed by the regulator and discount rates
The assumptions made for the return allowed by the regulator for future five yearly regulatory periods reflect a conservative view of the airport's cost of capital and expectations of the result of future price determinations. For Q6, the return assumed is slightly higher than the one allowed by the CAA in its decision due to an over performance expectation. For future quinquennia, Heathrow makes an assumption as to what the right cost of capital would be. The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount in the base case was 7.0%.
- Cost of debt
Long term assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Sensitivity analysis

The sensitivity of Heathrow's fair value to changes in key assumptions has been tested. The most relevant impacts are those related to the increase of capacity for Heathrow, to the assumed allowed regulatory return and to the discount rates.

Software costs

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

Software costs include assets in the course of construction of £61 million (2013: £66 million).

11 Available-for-sale investments

	2014 £m	2013 £m
Unlisted securities		
1 January	26	27
Loss recognised in equity	-	(1)
31 December	26	26

Available-for-sale investments relates to the Group's 4.19% equity interest in National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider. The Group does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available-for-sale investment.

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031. A rate of 10% (2013: 10%) has been used as the discount factor.

Disclosure of the Group's financial risk management framework that includes the governance of its available-for-sale investments is included in Note 18.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

12 Inventories

	31 December 2014	31 December 2013
	£m	£m
Consumables	10	10

The total amount of inventories consumed in the year relating to continuing operations was £4 million (2013: £6 million) and relating to discontinued operations was £nil million (2013: £2 million).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

13 Trade and other receivables

	31 December 2014	31 December 2013
	£m	£m
Non-current		
Prepayments ¹	23	37
Other receivables	-	2
Amounts owed by parent entity	93	93
	116	132
Current		
Trade receivables	227	196
Less: provision for impairment	(2)	(3)
Trade receivables – net	225	193
Prepayments	26	65
Term deposits	170	-
Other receivables	5	30
	426	288

¹ Non-current prepayments include £6 million (2013: £22 million) financing fees on facilities not yet drawn. These are amortised over the term of the facility.

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

Unless otherwise stated, trade and other receivables do not contain impaired assets.

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

As at 31 December 2014, trade receivables of £200 million (2013: £179 million) were fully performing. Trade receivables of £18 million (2013: £13 million) were past due but not impaired. 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 2014	31 December 2013
	£m	£m
Fully performing	200	179
Past due but not impaired		
Not impaired but overdue by less than 30 days	2	10
Not impaired but overdue by between 30 and 60 days	7	3
Not impaired but overdue by more than 60 days	9	-
	18	13
Overdue by more than 90 days	9	4

Movements in the provision for impairment of trade receivables are as follows:

	2014	2013
	£m	£m
1 January	3	3
Provision for receivables impairment	-	1
Receivables written off during the year as uncollectible	(1)	(1)
31 December	2	3

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

13 Trade and other receivables *continued*

As at 31 December 2014, trade receivables were considered for impairment of which £2 million (2013: £3 million) was provided for, with the remaining amount expected to be fully recovered. The individually 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 consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery.

The Group 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 18.

14 Restricted cash

	31 December 2014	31 December 2013
	£m	£m
Cash account	10	11
Short-term deposits	-	5
	10	16

15 Cash and cash equivalents

	31 December 2014	31 December 2013
	£m	£m
Cash at bank and in hand	220	68
Short-term deposits	103	75
	323	143

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 their book value.

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

	31 December 2014	31 December 2013
	£m	£m
Cash at bank and in hand	230	79
Short-term deposits	103	80
Bank overdraft (Note 16)	(2)	-
	331	159

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

16 Borrowings

	31 December 2014 £m	31 December 2013 £m
Current		
Secured		
Bank loans	39	39
Heathrow Funding Limited bonds:		
4.600% €750 million due 2014	-	572
3.000% £300 million due 2015	300	-
2.500% US\$500 million due 2015	320	-
Total Heathrow Funding Limited bonds	620	572
Unsecured		
Bank loans and overdrafts	2	-
Total current (excluding interest payable)	661	611
Interest payable	268	267
Total current	929	878
Non-current		
Secured		
Heathrow Funding Limited bonds:		
3.000% £300 million due 2015	-	299
2.500% US\$500 million due 2015	-	301
12.450% £300 million due 2016	324	341
4.125% €500 million due 2016	379	402
4.375% €700 million due 2017	542	581
2.500% CHF400 million due 2017	257	271
4.600% €750 million due 2018	575	614
6.250% £400 million due 2018	395	394
4.000% CAD400 million due 2019	219	225
6.000% £400 million due 2020	397	396
9.200% £250 million due 2021	297	292
3.000% CAD450 million due 2021	248	-
4.875% US\$1,000 million due 2021	664	605
1.650% + RPI £180 million due 2022	193	189
1.875% €600 million due 2022	485	-
5.225% £750 million due 2023	731	730
7.125% £600 million due 2024	589	588
4.221% £155 million due 2026	155	-
6.750% £700 million due 2026	683	683
7.075% £200 million due 2028	228	229
6.450% £900 million due 2031	998	992
Zero-coupon €50 million due January 2032	44	45
1.366% + RPI £75 million due 2032	76	-
Zero-coupon €50 million due April 2032	44	45
4.171% £50 million due 2034	50	-
Zero-coupon €50 million due 2034	39	-
1.382% + RPI £50 million due 2039	51	-
3.334% + RPI £460 million due 2039	571	559
1.238% + RPI £100 million due 2040	100	-
5.875% £750 million due 2041	736	733
4.625% £750 million due 2046	742	742
1.372% + RPI £75 million due 2049	76	-
Total Heathrow Funding Limited bonds	10,888	10,256
Heathrow Finance plc bonds:		
7.125% £325 million due 2017	320	320
5.375% £275 million due 2019	271	273
5.750% £250 million due 2025	248	-
Total Heathrow Finance plc bonds	839	593
Total bonds	11,727	10,849

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

16 Borrowings *continued*

	31 December 2014	31 December 2013
	£m	£m
Bank loans - Heathrow	136	255
Term note - 3.77% £100 million due 2026	100	-
Bank loans - NDH1 Group	-	329
Subordinated facilities	77	161
£30 million debenture due 2017 - NDH1 Group	-	36
Total bank loans	313	781
Total external borrowings	12,040	11,630
Borrowings from parent	155	165
Total non-current	12,195	11,795
Total borrowings (excluding interest payable)	12,856	12,406

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

16 Borrowings *continued*

Heathrow Funding Limited bonds

The maturity dates of the Heathrow Funding Limited bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and Heathrow Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.250% £400 million due 2018, 6.000% £400 million due 2020, 7.125% £600 million due 2024 and 4.221% £155 million due 2026 bonds, wherein the redemption dates coincide with their legal maturity dates.

Fair value of borrowings

	31 December 2014		31 December 2013	
	Book value £m	Fair value ¹ £m	Book value £m	Fair value ¹ £m
Current				
Short-term debt	661	666	611	681
Non-current				
Long-term debt	12,040	14,040	11,630	12,798
Borrowings from parent	155	155	165	165
	12,856	14,861	12,406	13,644

¹ Fair value of borrowings are for disclosure purposes only.

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices and are classified as Level 1. For unlisted borrowings, the Group establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data (Level 2). The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value. At 31 December 2014, the fair value of debt classified as Level 1 and Level 2 was £13,938 million and £923 million respectively (2013: £12,567 million and £1,077 million respectively).

The average cost of the Group's external gross debt at 31 December 2014 was 4.71% (2013: 4.71%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2014 was 5.73% (2013: 6.05%). The reduction in the average cost of debt since the end of 2013 is mainly due to lower inflation at the end of 2014.

Security and guarantees

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

Heathrow (DSH) Limited and Heathrow Finance plc have also granted security over their assets to secure their obligations under their financing agreements.

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

LHR Airports Limited has provided a guarantee to Deutsche Trustee Company Limited (the 'Bond Trustee') for itself and on behalf of the LHR Guaranteed Bondholders in respect of bonds issued by Heathrow Funding Limited with scheduled redemption dates up to and including 15 February 2018, other than any such bonds issued since 18 August 2008.

Heathrow Funding Limited has provided security to the Bond Trustee (as trustee for the Issuer Secured Creditors).

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

Additional disclosures on risk management and hedging of borrowings are included in Notes 17 and 18.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

17 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2014				
Current				
Interest rate swaps	100	-	(1)	(1)
Cross-currency swaps	319	2	-	2
	419	2	(1)	1
Non-current				
Interest rate swaps	2,163	-	(450)	(450)
Cross-currency swaps	3,447	151	(101)	50
Index-linked swaps	5,266	21	(783)	(762)
	10,876	172	(1,334)	(1,162)
Total	11,295	174	(1,335)	(1,161)
31 December 2013				
Current				
Interest rate swaps	123	-	(2)	(2)
Cross-currency swaps	513	135	-	135
Foreign exchange contracts	21	-	-	-
	657	135	(2)	133
Non-current				
Equity swaps	3	8	-	8
Interest rate swaps	2,488	2	(254)	(252)
Cross-currency swaps	2,990	141	(69)	72
Index-linked swaps	5,266	22	(854)	(832)
	10,747	173	(1,177)	(1,004)
Total	11,404	308	(1,179)	(871)

Equity swaps

The Group previously entered into a number of equity swaps to hedge Ferrovial share price risk under the Group's Executive Share Option Plan ('ESOP') – refer to Note 21. The total ESOP derivative portfolio consists of nil million shares (2013: 1.0 million shares) at a total mark to market asset of £nil million as at 31 December 2014 (2013: £8 million asset).

Interest rate swaps

Interest rate swaps are maintained by the Group, and designated as hedges, where they qualify, against variability in interest cash flows on current and future floating or fixed borrowings, or fair value movements in fixed rate borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk.

Cross-currency swaps

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on these swaps will be continuously released to the income statement over the period to maturity of the hedged bonds.

Index-linked swaps

Index-linked swaps have been entered into to economically hedge RPI linked revenue and RAB but are not designated in a hedge relationship.

Foreign exchange contracts

Foreign exchange contracts are used to manage exposures relating to future capital expenditure. Hedge accounting is not sought for these derivatives.

18 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments (other than derivatives) comprise bank loans, listed bonds, cash and term deposits. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into derivative transactions, principally interest rate swaps, cross-currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The Group's exposure to share price risk under its ESOP programme has now expired and the related equity swaps have matured.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

18 Financial instruments *continued*

Financial risk management objectives and policies *continued*

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 use of index-linked instruments.

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Group's business operations and funding.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing each of the risks which are summarised below.

Foreign exchange risk

For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge the interest and principal payments. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

As at 31 December 2014, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the Euro, annual pre-tax profit would have decreased or increased by £25 million and £31 million respectively (2013: £1 million increase and £1 million decrease respectively). Equity would have decreased or increased by £7 million and £8 million respectively (2013: £17 million decrease and £21 million increase respectively).

As at 31 December 2014, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the USD, annual pre-tax profit would have decreased by £16 million and £4 million respectively (2013: £16 million decrease and £4 million increase respectively). The impact on equity was immaterial for the period (2013: £5 million and £1m million decrease respectively).

Price risk

The Group is not materially exposed to equity security price risk on investments held by the Group and classified on the consolidated statement of financial position as available-for-sale.

The Group exposure to share price risk of Ferrovial, S.A., arising from its ESOP programme has now expired. In prior years the Group used equity swaps to manage this exposure.

The Group is exposed to RPI price risk on its index-linked bonds and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2014, with all other variables remaining constant, if the RPI had increased or decreased by a factor of 10%, annual pre-tax profit would have decreased or increased by £230 million and £222 million respectively (2013: £212 million decrease and £204 million increase respectively).

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a mix of fixed to floating rate debt within Board approved parameters such that a minimum of 75% of existing and forecast debt is at a fixed rate. To manage this mix, the Group enters into interest rate swaps. These swaps may be designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Group also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

As at 31 December 2014, the Group's fixed floating interest rate profile, after hedging, on gross debt was 98:02 (2013: 94:06).

As at 31 December 2014, for each 0.5% change in interest rates, this would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movements in finance income, finance costs and marked-to-market valuation of derivatives.

	31 December 2014		31 December 2013	
	Income statement impact	Equity impact	Income statement impact	Equity impact
	£m	£m	£m	£m
0.50% increase	172	15	152	79
0.50% decrease	(183)	(15)	(163)	(83)

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

18 Financial instruments *continued*

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. 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 and ensuring only counterparties within defined credit risk parameters are used.

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 no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F1. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with long-term credit ratings below BBB+ (S&P)/A (Fitch).

As at 31 December 2014, the Group had total credit risk with derivative counterparties of £174 million (2013: £308 million).

Financial assets past due but not impaired are disclosed in Note 13 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2014 is £929 million (2013: £689 million).

Liquidity risk

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. Further details of the risk management objectives and policies has been disclosed in the Internal controls and risk management section of the Strategic report.

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent have been met at the relevant date:

	31 December 2014	31 December 2013
	£m	£m
Floating rate facilities		
Expiring in one to two years	-	105
Expiring in more than two years	1,525	2,000
	1,525	2,105

As at 31 December 2014, uncommitted overdraft facilities of £10 million were available (2013: £15 million).

The tables below analyse the gross undiscounted contractual cash flows on the Group's financial liabilities and net settled derivative financial instruments as at 31 December to the contractual maturity date.

	31 December 2014			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	658	773	2,776	8,535
Borrowing interest payments	625	598	1,518	4,226
Derivative financial instruments	148	78	2	(161)
Trade payables	167	-	-	-
Capital payables	176	199	-	-

	31 December 2013			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	552	1,069	3,048	7,469
Borrowing interest payments	634	593	1,526	4,324
Derivative financial instruments	44	143	99	(204)
Trade payables	187	-	-	-
Capital payables	312	208	-	-

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

18 Financial instruments *continued*

Liquidity risk continued

The tables below analyse the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December to the contractual maturity date.

	31 December 2014			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	124	120	181	95
Cross-currency derivative receipts	(128)	(124)	(238)	(355)

	31 December 2013			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	119	109	232	55
Cross-currency derivative receipts	(153)	(120)	(283)	(97)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Group regularly reviews and maintains or adjusts the capital structure as appropriate in order to achieve these objectives.

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to Regulatory Asset Base ('RAB') for Heathrow and net debt to earnings before interest, tax, depreciation and amortisation ('EBITDA'). Net debt is external consolidated nominal net debt within the part of the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels including Heathrow Finance plc and Heathrow (SP) Limited. Gearing ratios of each of these are below:

	31 December 2014	31 December 2013
Net debt to RAB at Heathrow Finance plc	0.85	0.82
Total net debt to RAB at Heathrow (SP) Limited	0.78	0.77
Senior net debt to RAB at Heathrow (SP) Limited	0.68	0.68

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

18 Financial instruments *continued*

Financial instruments by category

The Group's financial instruments as classified in the financial statements as at 31 December can be analysed under the following categories:

31 December 2014					
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available- for-sale £m	Total £m
Available-for-sale investments	-	-	-	26	26
Derivative financial instruments	-	21	153	-	174
Cash and cash equivalents	333	-	-	-	333
Trade receivables	225	-	-	-	225
Other receivables	171	-	-	-	171
Total financial assets	729	21	153	26	929

31 December 2014					
		Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings		-	-	(12,856)	(12,856)
Derivative financial instruments		(1,028)	(307)	-	(1,335)
Trade payables		-	-	(167)	(167)
Capital payables		-	-	(176)	(176)
Total financial liabilities		(1,028)	(307)	(13,199)	(14,534)

31 December 2013					
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available-for- sale £m	Total £m
Available-for-sale investments	-	-	-	26	26
Derivative financial instruments	-	32	276	-	308
Cash and cash equivalents	159	-	-	-	159
Trade receivables	193	-	-	-	193
Other receivables	3	-	-	-	3
Total financial assets	355	32	276	26	689

31 December 2013					
		Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings		-	-	(12,406)	(12,406)
Derivative financial instruments		(954)	(225)	-	(1,179)
Trade payables		-	-	(187)	(187)
Capital payables		-	-	(312)	(312)
Total financial liabilities		(954)	(225)	(12,905)	(14,084)

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

18 Financial instruments *continued*

Financial instruments by category continued

At 31 December 2014, the Group has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- the fair value of cross-currency and 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.

The tables below present the Group's assets and liabilities that are measured at fair value as at 31 December:

	31 December 2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	21	-	21
Derivatives qualifying for hedge accounting	-	153	-	153
Available-for-sale investments	-	-	26	26
Total assets	-	174	26	200
Liabilities				
Liabilities at fair value through income statement	-	(1,028)	-	(1,028)
Derivatives qualifying for hedge accounting	-	(307)	-	(307)
Total liabilities	-	(1,335)	-	(1,335)

	31 December 2013			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	32	-	32
Derivatives qualifying for hedge accounting	-	276	-	276
Available-for-sale investments	-	-	26	26
Total assets	-	308	26	334
Liabilities				
Liabilities at fair value through income statement	-	(954)	-	(954)
Derivatives qualifying for hedge accounting	-	(225)	-	(225)
Total liabilities	-	(1,179)	-	(1,179)

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

18 Financial instruments *continued*

Fair value estimation continued

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period.

Changes in Level 3 instruments have been disclosed in Note 11.

19 Deferred income tax

The net movement on the deferred income tax account was as follows.

	<i>Note</i>	2014 £m	2013 £m
1 January		(1,084)	(1,152)
Charged to income statement ¹		(39)	(36)
Credited to income statement – change in tax rate ²		-	179
Credited/(charged) to equity	26	35	(42)
Charged to equity – change in tax rate	26	-	(33)
Transfers to liabilities held-for-sale		153	-
31 December		(935)	(1,084)

¹ During the year ended 31 December 2014 £2 million charge (2013: £2 million credit) related to discontinued operations.

² During the year ended 31 December 2014 £nil million (2013: £22 million credit) related to discontinued operations.

The amounts of deferred income tax provided are detailed below.

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Revaluations of property plant, and equipment £m	Fair value of retail contracts and right to operate £m	Other £m	Total £m
1 January 2013	(1,079)	(236)	(88)	(52)	(36)	(1,491)
(Charged)/credited to income statement	(44)	(5)	-	1	2	(46)
Credited to income statement - change in tax rate	136	21	14	7	4	182
Charged to equity	-	-	(1)	-	-	(1)
Credited/(charged) to equity – change in tax rate	-	10	(2)	-	-	8
1 January 2014	(987)	(210)	(77)	(44)	(30)	(1,348)
(Charged)/credited to income statement	(53)	(19)	-	1	6	(65)
Credited to equity	-	-	1	-	-	1
Transfers to liabilities held- for-sale	82	35	8	38	1	164
31 December 2014	(958)	(194)	(68)	(5)	(23)	(1,248)

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

19 Deferred income tax *continued*

Deferred income tax assets

	Capital losses £m	Non trade deficit £m	Financial instruments £m	Fair value of long-term borrowings £m	Fair value uplift of bonds £m	Post employment benefits £m	Total £m
1 January 2013	14	121	88	55	33	28	339
(Charged)/credited to income statement	-	(4)	25	(5)	(4)	(2)	10
(Charged)/credited to income statement – change in tax rate	(2)	(16)	9	(7)	(4)	17	(3)
(Charged)/credited to equity	-	-	(46)	-	-	5	(41)
Charged to equity – change in tax rate	-	-	(20)	-	-	(21)	(41)
1 January 2014	12	101	56	43	25	27	264
(Charged)/credited to income statement	-	(5)	49	(6)	(1)	(11)	26
Credited to equity	-	-	1	-	-	33	34
Transfers to liabilities held-for-sale	-	-	(7)	-	(1)	(3)	(11)
31 December 2014	12	96	99	37	23	46	313

Deferred income tax credited/(charged) to equity during the year was as follows.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Cash flow hedge reserve	10	(46)
Cash flow hedge reserve – change in tax rate	-	(20)
Cash flow hedge reserve recycled to income statement on disposal (Note 6)	(9)	-
Retirement benefit obligations	33	5
Tax relating to indexation of operating land	1	(1)
Retained earnings – change in tax rate	-	(13)
	35	(75)

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. As a result, the Group's deferred tax balances, which were previously provided at 23%, were re-measured at a rate of 20% in the year ended 31 December 2013. This resulted in a reduction in the net deferred tax liability of £146 million, with £179 million credited to the income statement and £33 million charged to reserves.

20 Retirement benefit obligations

The Group has applied the requirements of the standard IAS 19 'Employee Benefits (Revised 2011)' ('IAS 19R') for the year ended 31 December 2014. The total cost of defined contribution pension arrangements are fully expensed as employment costs. Comparative figures for the years ended 31 December 2013 and 2012 are also included.

Characteristics of the Group's pension related liabilities

The Group operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution pension schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The Group has no further payment obligations once the contributions have been paid.

The Group's primary defined benefit UK 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's Board that, together with the Group, 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 the Group. The defined benefit obligation or surplus is calculated quarterly by independent actuaries.

The last formal valuation of the Scheme was carried out at 30 September 2013. The split of liabilities on the on-going actuarial basis is approximately 26% in respect of current active employees, 21% in respect of former employees yet to reach retirement and 53% in respect of members in receipt of pensions. The weighted average duration of the Scheme's liabilities is approximately 19 years.

The Group 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, the Group provides post-retirement medical benefits to certain pensioners.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

20 Retirement benefit obligations *continued*

Amounts arising from pensions related liabilities in the Group's financial statements

The following tables identify the amounts in the Group'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 2014 £m	Restated ¹ Year ended 31 December 2013 £m	Restated ¹ Year ended 31 December 2012 £m
Employment costs:			
Defined contribution schemes	8	7	5
BAA Pension Scheme	53	55	57
Unfunded schemes	-	1	1
	61	63	63
Finance cost/(income) - BAA Pension Scheme	3	3	(3)
Total pension costs – continuing operations	64	66	60
Pension costs - discontinued operations within employment costs:			
Defined contribution schemes	1	1	1
BAA Pension Scheme	6	8	11
Finance income – BAA Pension Scheme	-	-	(1)
Total pension costs – discontinued operations	7	9	11
Total pension costs	71	75	71

¹ The presentation of balances for the year ended 31 December 2013 and 31 December 2012 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
BAA Pension Scheme	(182)	(65)	(194)
Unfunded schemes	(3)	2	(1)
Actuarial loss recognised before tax	(185)	(63)	(195)
Tax credit on actuarial loss	33	5	45
Actuarial loss recognised after tax	(152)	(58)	(150)

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

The Group's liabilities in relation to pensions are recognised within non-current liabilities or assets if the pension schemes are in a deficit or surplus position, respectively. The net deficit or surplus is presented below for the current and previous four financial years.

	31 December				
	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Fair value of plan assets	3,274	2,867	2,791	2,691	2,359
Benefit obligation	(3,473)	(2,960)	(2,894)	(2,652)	(2,403)
(Deficit)/surplus in BAA Pension Scheme	(199)	(93)	(103)	39	(44)
Unfunded pension obligations	(23)	(22)	(24)	(23)	(19)
Post-retirement medical benefits	(6)	(6)	(6)	(6)	(4)
Deficit in other pension related liabilities	(29)	(28)	(30)	(29)	(23)
Net (deficit)/surplus in pension schemes	(228)	(121)	(133)	10	(67)

(a) BAA Pension Scheme

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

The value placed on the liabilities of the scheme as at 31 December 2014 is based the full actuarial valuation carried out at 30 September 2013. The liabilities have been calculated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 December 2014. As required by IAS 19R, the Group recognises remeasurements as they occur in the statement of comprehensive income.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

Analysis of amounts recognised of the net defined pension (deficit)/surplus

	2014 £m	2013 £m	2012 £m
Net defined benefit pension (deficit)/surplus at 1 January	(93)	(103)	39
Defined benefit obligation at 1 January	2,960	2,894	2,652
<i>Income statement:</i>			
Current service cost	58	58	61
Past service cost ¹	(31)	(22)	-
Interest cost	133	121	124
<i>Other comprehensive income:</i>			
Experience (gains) and losses	(17)	2	(3)
Remeasurements of defined benefit obligation:			
arising from changes in demographic assumptions	179	(26)	-
arising from changes in financial assumptions	417	112	186
<i>Cash flows:</i>			
Members' contributions	8	8	10
Settlement gain	-	(92)	(46)
Bulk liabilities transferred on disposal of NDH1 Group ¹	(135)	-	-
Benefits paid (by fund and Group)	(99)	(95)	(90)
Defined benefit obligation at 31 December	3,473	2,960	2,894
Fair value of plan assets at 1 January	2,867	2,791	2,691
<i>Income statement:</i>			
Interest income on plan assets	130	118	128
Administration costs	(4)	(2)	(3)
<i>Other comprehensive income:</i>			
Remeasurement gain/(loss) (return on assets in excess of interest income on plan assets)	397	23	(11)
<i>Cash flows:</i>			
Employer contributions (including benefits paid and reimbursed)	107	94	99
Members' contributions	8	8	10
Stansted/Edinburgh commutation payment ^{2,3}	-	35	13
Bulk transferred assets on settlement	-	(105)	(46)
Bulk assets transferred on disposal of NDH1 Group ¹	(132)	-	-
Benefits paid (by fund and Group)	(99)	(95)	(90)
Fair value of plan assets at 31 December	3,274	2,867	2,791
Net defined benefit pension deficit at 31 December	(199)	(93)	(103)

¹ The disposal of the NDH1 Group took place on 18 December 2014 resulting in a net gain on bulk transfer of £3 million (£135 million liabilities transferred and £132 million assets transferred). A curtailment gain of £30 million arose due to members ceasing to accrue pension benefits.

² The disposal of Stansted airport took place on 28 February 2013 producing a net gain on bulk transfer of £12 million. A commutation payment of £35 million was paid in late 2013.

³ The disposal of Edinburgh airport took place on 31 May 2012, with assets and liabilities in respect of active members being transferred, resulting in a nil net gain. A commutation payment of £13 million was paid in December 2012.

The actual return on plan assets was £527 million (2013: £141 million; 2012: £117 million).

Experience gains of £17 million (2013: losses of £2 million; 2012: gain of £3 million) arose primarily due to updating the Scheme membership data underlying the calculation.

The net actuarial loss of £182 million (2013: £86 million; 2012: £186 million) arose as a result of a reduction in the net discount rate to 3.55% (2013: 4.55%; 2012: 4.4%) and an increase in the long-term rate of improvement in relation to mortality to 1.5% (2013: 1.0%; 2012: 1.0%) offset by asset returns in excess of interest income on plan assets and a fall in expected inflation rate to 3.2% (2013: 3.4%; 2012: 3.0%).

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

Analysis of fair value of plan assets

	31 December 2014 £m	31 December 2013 £m	31 December 2012 £m
Fair value of plan assets			
Equities	668	724	534
Bonds	1,123	1,155	1,245
Other ^{1,2,3}	1,483	988	1,012
Total fair value of plan assets	3,274	2,867	2,791

¹ Other includes £275 million of hedge fund assets and £1,208 million of investment in assets to minimise inflation and interest rate risk.

² Other includes £112 million of property assets and £876 million of cash, macro oriented and hedging mandate instruments as at 31 December 2013.

³ Other mainly includes £198 million of investment managed by hedge funds and £729 million of interest rate and inflation hedging instruments as at 31 December 2012.

The assets of the Scheme are invested in a range of funds with different risk and return profiles. To the extent that the Scheme is partially funded through asset performance, and actual investment returns achieved are lower than those assumed, then this may result in a worsening of the funding position and future cash contribution requirements for the Group.

Analysis of financial assumptions

The financial assumptions used to calculate Scheme assets and liabilities under IAS 19R as at 31 December 2014, 2013 and 2012 are:

	31 December 2014 %	31 December 2013 %	31 December 2012 %
Rate of increase in pensionable salaries	4.7	4.9	4.5
Increase to deferred benefits during deferment	2.5	2.4	2.3
Increase to pensions in payment:			
Open section	3.1	3.3	2.9
Closed section	3.2	3.4	3.0
Discount rate	3.6	4.6	4.4
Inflation assumption	3.2	3.4	3.0

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 27.1 years (2013: 26.7 years; 2012: 26.7 years) and 29.6 years (2013: 28.2 years; 2012: 28.3 years) from age 60 for a 40 year old male non-pensioner.

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

The expected rate of inflation is an important assumption for the salary growth and pension increase assumptions. A rate of inflation is 'implied' by the difference between the yields on fixed and index-linked government bonds.

As required under IAS 19R, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

At 31 December 2014, the largest single category of investment is an interest rate and inflation hedging mandate, with a value of £1,098 million (34% of the asset holding at 31 December 2014). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk.

Analysis of future cash flows

In January 2015, the trustee of the Group's defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustee's actuarial assumptions. LHR Airports Limited agreed an increase to its annual deficit recovery payment from £24 million to £27 million until 2023. In respect of future accrual of benefits LHR Airports Limited will contribute approximately 33% of basic salary and shift pay, which is estimated to be £46 million in 2015.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

20 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.

	(Decrease)/increase in defined benefit obligation	
	Before tax £m	After tax £m
Discount rate		
+0.50% discount rate	(318)	(254)
-0.50% discount rate	366	293
Inflation rate		
+0.50% inflation rate	293	234
-0.50% inflation rate	(261)	(209)
Salary increase		
+0.50% salary increase	47	38
-0.50% salary increase	(45)	(36)
Mortality		
Increase in life expectancy by one year	105	84

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.

(b) Other pension and post-retirement liabilities

The Group operates a defined contribution scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £9 million (2013: £8 million; 2012: £56 million).

The Group 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 provision for unfunded pension obligations of £23 million (2013: £22 million; 2012: £24 million) is included in the statement of financial position. In addition the Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £6 million (2013: £6 million; 2012: £6 million) 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.

21 Share-based payments

Until 2009 the Group operated an Executive Share Option Plan ('ESOP') to provide awards of options over Ferrovial S.A. shares for full time directors and other senior employees. Ferrovial S.A. is a shareholder of the Company. This plan was closed in 2009 and replaced by a cash settled bonus scheme.

Options were granted with a fixed exercise price equal to the market price of the shares at the date of grant. The exercise period for each of the issues commenced three years from the option grant date and lasts for three years. The table below shows the movements in options.

Date of grant	Options at			Options at		Exercise price (€)
	1 January 2014	Expired/forfeited	Exercised	31 December 2014		
July 2008	419,800	(21,890)	(397,910)	-	10.83	
November 2008	14,091	(3,726)	(10,365)	-	6.02	

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

22 Provisions

	Disposal of operations £m	Reorganisation costs £m	Other £m	Total £m
Non-current	-	-	13	13
Current	8	22	4	34
1 January 2014	8	22	17	47
Utilised	(2)	(15)	(5)	(22)
Charged to income statement	11	8	-	19
Released to income statement	(5)	(2)	-	(7)
Unwinding of discount	-	-	1	1
31 December 2014	12	13	13	38
Non-current	-	-	11	11
Current	12	13	2	27
31 December 2014	12	13	13	38

Disposal of operations

Provisions are held mainly for costs associated with the Group's disposal of the NDH1 Group, which was sold in December 2014. All amounts are expected to be utilised in 2015. During the year ended 31 December 2014 provisions held in relation to the disposal of Stansted and Naples airports were substantially utilised or released to the income statement.

Reorganisation costs

These are costs associated with the Group's reorganisation programmes primarily relating to restructuring processes designed to reduce the size and costs of overhead functions. The charge relates to severance and pension payments associated with the reorganisation programme being carried out during 2015.

Other

These provisions largely relate to the on-going maintenance payments in connection with the M25 spur road at Terminal 5, calculated in accordance with the Highways Agency standard processes and discounted to present value. Other provisions also include onerous contracts.

23 Trade and other payables

	31 December 2014 £m	31 December 2013 £m
Non-current		
Other payables	6	6
	6	6
Current		
Deferred income	29	30
Trade payables	167	187
Other tax and social security	9	11
Other payables	22	17
Capital payables	176	312
Amounts owed to parent entity	38	31
	441	588

Trade payables are non-interest bearing and are generally on 30-day terms.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

24 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2013, 1 January 2014 and 31 December 2014	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2013, 1 January 2014 and 31 December 2014	42,998,461,934	2,665,904,640

25 Other reserves

	Cash flow hedge reserve £m	Available-for- sale reserve £m	Currency translation reserve £m	Total £m
1 January 2013	(502)	11	13	(478)
Fair value gains/(losses)	227	(1)	-	226
Transferred to income statement	7	-	-	7
Deferred tax on fair value gains	(46)	-	-	(46)
Change in tax rate	(20)	-	-	(20)
1 January 2014	(334)	10	13	(311)
Fair value losses	(229)	-	-	(229)
Transferred to income statement	197	-	-	197
Currency translation	-	-	(1)	(1)
Recycled to income statement on disposal/liquidation (Note 6)	39	-	(12)	27
Deferred tax on fair value losses	10	-	-	10
Current tax on fair value losses	(1)	-	-	(1)
Deferred tax on cash flow hedging recycled to income statement on disposal (Note 6)	(9)	-	-	(9)
31 December 2014	(327)	10	-	(317)

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

26 Tax relating to components of other comprehensive income

The tax credit/(charge) relating to components of other comprehensive income was as follows.

	Year ended 31 December 2014			Restated ¹ Year ended 31 December 2013		
	Before tax £m	Tax credit/ (charge) £m	After tax £m	Before tax £m	Tax (charge)/ credit £m	After tax £m
Continuing operations						
Available-for-sale investments						
Loss taken to equity	-	-	-	(1)	-	(1)
Cash flow hedges						
(Loss)/profit taken to equity	(217)	43	(174)	217	(43)	174
Transferred to income statement	181	(33)	148	(11)	3	(8)
Actuarial (loss)/gain (Note 20)	(185)	33	(152)	(63)	5	(58)
Change in tax rate	-	-	-	-	(33)	(33)
Tax relating to indexation of operating land	-	1	1	-	(1)	(1)
Discontinued operations¹						
Cash flow hedges						
(Loss)/profit taken to equity	(12)	2	(10)	10	(2)	8
Transferred to income statement	16	(3)	13	18	(4)	14
Recycled to income statement on disposal of subsidiary (Note 6)	39	(9)	30	-	-	-
Currency translation						
Loss taken to equity	(1)	-	(1)	-	-	-
Recycled to income statement on liquidation of subsidiary (Note 6)	(12)	-	(12)	-	-	-
Other comprehensive (loss)/income	(191)	34	(157)	170	(75)	95
Current tax	-	(1)	-	-	-	-
Deferred tax (Note 19)	-	35	-	-	(75)	-
	(191)	34	(157)	170	(75)	95

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group and BAA Italia in discontinued operations (Note 6).

27 Retained earnings

	2014 £m	2013 £m
At 1 January	72	131
Consolidated profit for the year	308	709
Actuarial loss on pensions (Note 20)	(185)	(63)
Tax gain on actuarial movement	33	5
Change in tax rate	-	(13)
Tax relating to indexation of operating land	1	(1)
Dividends paid (Note 7)	(1,098)	(696)
At 31 December	(869)	72

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

28 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

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

	31 December 2014		31 December 2013	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	13	43	15	42
Within two to five years	36	137	43	142
After five years	12	513	17	544
	61	693	75	728

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

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

Non-cancellable operating lease commitments – Group as a lessor

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

	31 December 2014		Restated ¹ 31 December 2013	
	Land and buildings		Land and buildings	
	£m		£m	
Within one year	93		90	
Within two to five years	320		305	
After five years	1,585		1,581	
	1,998		1,976	

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

The Group 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.

Group commitments for property, plant and equipment

	31 December 2014		Restated ¹ 31 December 2013	
	£m		£m	
Contracted for, but not accrued:				
Tunnel refurbishment	69		-	
Capacity optimisation	48		33	
Baggage systems	29		42	
IT projects	13		15	
Terminal 2	5		57	
Terminal restoration and modernisation	2		37	
	166		184	
Other projects	33		24	
	199		208	

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

28 Commitments and contingent liabilities *continued*

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. Heathrow has a £2.3 billion (at 2011/12 prices) capital investment programme in respect of the current regulatory period that now ends on 31 December 2018. Capital expenditure at Heathrow in the year ending 31 December 2015 is expected to be over £580 million. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project.

Other commitments

In May 2014 Heathrow submitted a proposal for a third runway to the Airports Commission. This proposal is shortlisted for further appraisal along with another option at Heathrow and one at Gatwick. Following detailed independent assessments, the Airports Commission launched a national consultation on 11 November 2014. The Commission will take account of responses to the consultation and issue its final report in summer 2015.

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

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

In January 2015, the trustee of the Group's defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustee's actuarial assumptions. LHR Airports Limited agreed an increase to its annual deficit recovery payment from £24 million to £27 million until 2023. In respect of future accrual of benefits LHR Airports Limited will contribute approximately 33% of basic salary and shift pay, which is estimated to be £46 million in 2015.

Contingent liabilities

The Group has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £9 million at 31 December 2014 (2013: £10 million).

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

29 Note to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from continuing operations

	Note	Year ended 31 December 2014 £m	Restated ¹ Year ended 31 December 2013 £m
Operating activities			
Profit before tax		105	302
<i>Adjustments for:</i>			
Fair value loss on financial instruments	4b	153	69
Finance costs	4a	980	836
Finance income	4a	(237)	(233)
Fair value gains on investment properties		(46)	(62)
Depreciation	2	552	432
Amortisation and impairment	2	34	26
Decrease/(increase) in trade and other receivables		10	(2)
Increase in inventories		(1)	(2)
Increase in trade and other payables		5	8
(Decrease)/increase in provisions		(10)	18
Difference between pension charge and cash contributions		(30)	(27)
Cash generated from continuing operations		1,515	1,365

¹ The presentation of balances for the year ended 31 December 2013 has been restated to include the results of the NDH1 Group in discontinued operations (Note 6).

Reconciliation in net debt

Net debt comprises the Group's external consolidated borrowings excluding interest accruals, net of cash and cash equivalents and term deposits, and excludes restricted cash.

	1 January 2014 £m	Cash flow £m	Disposal of subsidiary (Note 6) £m	Transfers from non- current to current £m	Other non-cash changes ¹ £m	31 December 2014 £m
Cash and cash equivalents	143	214	(34)	-	-	323
Term deposits	-	170	-	-	-	170
Current debt	(611)	551	320	(955)	34	(661)
Non-current debt	(11,630)	(1,437)	30	955	42	(12,040)
Net debt	(12,098)	(502)	316	-	76	(12,208)

¹ Relates to amortisation of issue costs, premiums and discounts, foreign exchange translations of foreign currency debt, fair value adjustments on hedged bonds and accretion accruals.

30 Related party transactions

During the year the Group entered into the following transactions with related parties.

Related party	Sales to related party		Purchases from related party		Amounts owed by related party		Amounts owed to related party	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Amey Airport Services Limited	-	-	-	2	-	-	-	-
Amey Community Limited	-	-	9	22	-	-	-	-
Ferrovial	-	-	6	7	-	-	-	-
Ferrovial Agroman	-	-	22	65	-	-	-	-
Harrods International Limited	23	20	-	-	-	-	-	-
HETCo	-	-	106	333	-	-	-	27
Qatar Airways	25	21	-	-	1	1	-	-
ADI Finance 2 Limited	-	-	-	-	93	93	194	196
	48	41	143	429	94	94	194	223

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

30 Related party transactions *continued*

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. In addition, the Group completed the disposal of its 100% shareholding in the NDH1 Group to AGS Airports Limited, which is owned by Macquarie European Investment Fund 4 and Ferrovial Aeropuertos S.A., in an arms-length transaction (Note 6). The Security granted by the Group over its assets has been disclosed in Note 16.

31 Parent undertaking and controlling party

The immediate parent undertaking of the Group is ADI Finance 2 Limited, a company registered in England and Wales.

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

The Company is the parent undertaking of the smallest group to consolidate these financial statements.

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

32 Principal subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Holding and other companies

Non Des Topco Limited
Heathrow Finance plc¹
Heathrow (SP) Limited¹
Heathrow Funding Limited^{1,2}
LHR Airports Limited¹

Airport owners and operators

Heathrow Airport Limited¹

¹ Held by a subsidiary undertaking

² Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly-owned, incorporated in Great Britain and registered in England and Wales. A complete list of subsidiaries will be annexed to the next annual return delivered to the Registrar of Companies.

33 Subsequent events

In January 2015, the trustee of the Group's defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustee's actuarial assumptions. LHR Airports Limited agreed an increase to its annual deficit recovery payment from £24 million to £27 million until 2023. In respect of future accrual of benefits LHR Airports Limited will contribute approximately 33% of basic salary and shift pay, which is estimated to be £46 million in 2015.

On 11 February 2015, the Group raised €750 million of fixed rate debt through the issue of a Eurobond. The bond carries a coupon of 1.500% and matures in 2030.

Heathrow Airport Holdings Limited

Contents

Independent auditor's report on the Company financial statements	87
Company financial statements	
Company balance sheet	88
Accounting policies	89
Notes to the Company financial statements	91

Heathrow Airport Holdings Limited

Independent auditor's report to the members of Heathrow Airport Holdings Limited

We have audited the parent company financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2014 which comprise the Company balance sheet, the Accounting policies and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and Directors' reports for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

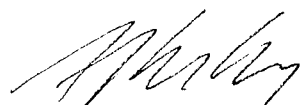
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Other matter

We have reported separately on the group financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2014.



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

23 February 2015

Heathrow Airport Holdings Limited

Company balance sheet

	<i>Notes</i>	31 December 2014 £m	31 December 2013 £m
Fixed assets			
Investments in subsidiaries	2	5,180	4,444
		5,180	4,444
Current assets			
Debtors : due within one year	3	47	50
: due after more than one year	3	959	564
Cash at bank and in hand		-	1
Total current assets		1,006	615
Creditors: amounts falling due within one year	4	-	(2)
Net current assets		1,006	613
Total assets less current liabilities		6,186	5,057
Creditors: amounts falling due after more than one year	5	(155)	(165)
Net assets		6,031	4,892
Capital and reserves			
Called up share capital	6	2,666	2,666
Profit and loss reserve	7	3,365	2,226
Total shareholder's funds		6,031	4,892

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05767208) were approved by the Board of Directors and authorised for issue on 23 February 2015. They were signed on its behalf by:



John Holland-Kaye
Director



José Leo
Director

Heathrow Airport Holdings Limited

Accounting policies

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

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with applicable Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')). The financial statements present information about the Company as an individual entity only and not as a group.

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.

Investment in subsidiaries

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

Debtors

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

Cash

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

Amounts owed to group undertakings

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

Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in reserves. In this case, the tax is also recognised in reserves.

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

In accordance with FRS 19, 'Deferred Tax', deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

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

Deferred tax 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.

Dividend distribution

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

Heathrow Airport Holdings Limited

Accounting policies *continued*

Cash flow statement and related party disclosures

The ultimate parent entity is FGP Topco Limited, a company registered in England and Wales. The results and cash flows of the Company are included in the publicly available financial statements of the Group. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'.

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

Heathrow Airport Holdings Limited

Notes to the Company financial statements

1 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £2,237 million (2013: £716 million).

2 Investments in subsidiaries

	£m
1 January 2014	4,444
Reversal of impairment	736
31 December 2014	5,180

Details of the principal subsidiary undertakings of the Group have been provided in Note 32 of the Heathrow Airport Holdings Limited consolidated financial statements.

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

3 Debtors

	31 December 2014 £m	31 December 2013 £m
Due within one year		
Amounts owed by group undertakings – interest free	29	29
Amounts owed by group undertakings – interest bearing ¹	8	8
Interest owed by group undertakings	10	13
	47	50
Due after more than one year		
Amounts owed by parent undertaking ² – interest free	93	93
Amounts owed by group undertakings ³ – interest bearing	770	370
Deferred tax asset	96	101
	959	564
Total debtors	1,006	614

¹ Represents a loan advanced to LHR Airports Limited and attracts a rate of interest of 0.80%.

² Amounts owed by parent undertaking represent a loan to ADI Finance 2 Limited and is on an interest free basis.

³ Amounts owed by group undertakings represent a loan advanced to Heathrow Holdco Limited of £770 million (2013: £26 million) and attracts a fixed rate of interest of 6.65% at 31 December 2014. The balance in 2013 included a loan to Non Des Topco Limited of £344 million which was repaid during the period upon disposal of the NDH1 Group.

Deferred tax asset

Provision has been made for deferred tax in accordance with FRS 19. The amount provided in the accounts is detailed below and is considered more likely than not to be recovered.

	31 December 2014 £m	31 December 2013 £m
Surplus non trade deficit	96	101

4 Creditors: amounts falling due within one year

	31 December 2014 £m	31 December 2013 £m
Other creditors	-	2

5 Creditors: amounts falling due after more than one year

	31 December 2014 £m	31 December 2013 £m
Loan from parent undertaking – interest free	155	165

The loan from parent undertaking represents an amount lent by ADI Finance 2 Limited to the Company.

Heathrow Airport Holdings Limited

Notes to the Company financial statements *continued*

6 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2014 and 31 December 2014	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2014 and 31 December 2014	42,998,461,934	2,665,904,640

7 Profit and loss reserve

	£m
1 January 2014	2,226
Profit for the financial year	2,237
Dividends paid	(1,098)
31 December 2014	3,365

8 Dividends

During 2014, the Company made dividend payments totalling £1,098 million (2013: £696 million) comprising a £670 million one-off dividend following the disposal of the NDH1 Group (2013: £300 million on disposal of Stansted airport), £270 million (2013: £255 million) in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to the servicing of external debt at the Company's immediate holding companies (2013: £141 million related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries).

9 Auditor's remuneration

Audit fees are recharged in accordance with the group Shared Services Agreements ('SSAs') into the operating entities. The Company is not an operating entity and is therefore not party to the SSAs and receives no recharge of the audit cost. However, the Company's auditor received £21,000 (2013: £21,000) as remuneration for the audit of the Company's financial statements, the cost of which was borne by LHR Airports Limited.

10 Employee information and directors' remuneration

Employee numbers

The Company had no employees (2013: none).

Directors' remuneration

None of the directors (2013: none) who served during the year ended 31 December 2014 received any emoluments from the Company.

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

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

Details of directors' remuneration for the year are provided in Note 2 of the Group financial statements.

Heathrow Airport Holdings Limited

Notes to the Company financial statements *continued*

11 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Company is ADI Finance 2 Limited, a company registered in England and Wales.

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

The Company is the parent undertaking of the smallest group to consolidate these financial statements.

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

Registered office

Heathrow Airport Holdings Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England Number: 05757208