Heathrow Airport Limited

Annual report and financial statements for the year ended 31 December 2014

Company registration number: 01991017

Heathrow Airport Limited

Contents

Heathrow Airport Limited

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Heathrow Airport Limited

Strategic report

Heathrow Airport Limited (the 'Company') owns Heathrow airport ('Heathrow') and operates Heathrow Express ('HEX'), the express rail service between Heathrow and central London. The Company is entitled to all receipts and income relating to HEX but the day-to-day operation of HEX is undertaken on behalf of the Company by Heathrow Express Operating Company Limited, a subsidiary of the Company.

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

This strategic report is presented in five sections:

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

Management review – overview of the year ended 31 December 2014, along with the key factors likely to impact the company 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 company as at that date. The company's accounting and reporting policies and procedures are also considered;

Leadership and Governance – description of the Board of Directors 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 Europe's hub airport and the third largest airport in the world by passenger numbers. Heathrow is the only hub airport in London and the UK, 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 carrying more than one-quarter of UK exports and more freight by value 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 company 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 company 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.

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.

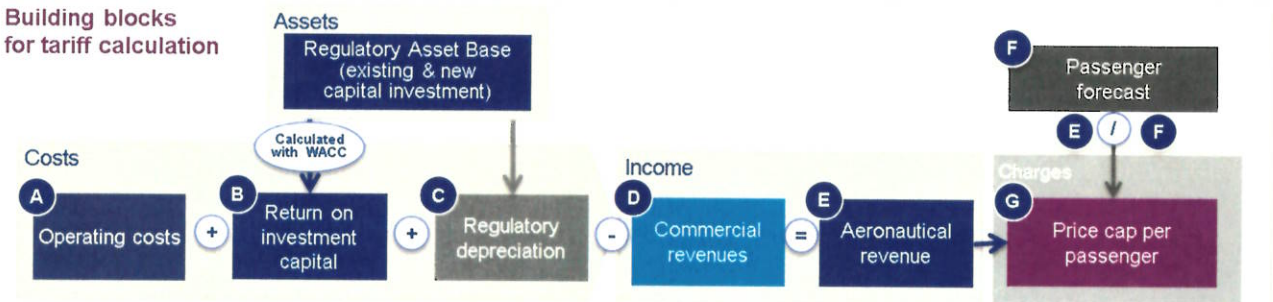
Mojo
To be a great place to work, we will help our people fulfil their potential and work together to lead change across Heathrow with energy and pride.

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 license, 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 on 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 aircraft 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.

Business overview *continued*

Our regulatory environment *continued*

The Price Cap continued

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.

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.
- 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

Strategic report *continued*

Business overview *continued*

Our regulatory environment *continued*

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 nearly 97.6% (2013: 97.5%) 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.

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.

Management review

Review of 2014

Key features of the year

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 schdule 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, Mexico City, Bogota and Austin, Texas and Air China consolidated its London operation 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 operating 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 operations resilience whilst delivering a competitive cost of operation. The regulatory settlement requires delivery of £600 million of cost efficiencies between 2014 and 2018. A good start has been made and 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.

Strategic report *continued*

Management review *continued*
Review of 2014 *continued*
Passenger traffic
Heathrow's passenger traffic by geographic segment for the year ended 31 December 2014:

Passengers by geographic segment (millions)	**Year ended 31 December 2014**	Year ended 31 December 2013	Change[1] %
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 passengers[1]	**73.4**	72.3	1.4

[1] These figures have been calculated using un-rounded passenger numbers.

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 operation 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) surveys directed by Airports Council International (ACI), averaging 4.04 (2013: 3.97) out of 5.00, 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.

Management review *continued*

Service standards continued

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.

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.

Management review *continued*

Heathrow's business plan continued

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).

Heathrow's efficiency programme is expected to deliver an aggregate of over £700 million of savings between 2014 and 2018. Around half of the savings are 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.

Investing in Heathrow

Building on the £11 billion investment programme over the last 10 years, Heathrow invested £725 million in 2014. Capital expenditure in cash terms was £853 million and reflects the timing difference between completion of assets during 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 corresponding approval of the 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.

Management review *continued*

Airports Commission continued

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. 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 subject to CAA approval, 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.

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 Limited

Strategic report *continued*

Financial review

Introduction
The following financial review provides commentary on the performance of the Company during 2014.

Basis of preparation of statutory results
The Company's statutory accounts are prepared under UK GAAP.

Basis of presentation of financial results
The table below summarises the Company's financial performance in 2014 and includes comparative information for 2013.

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.

The income statement below provides more detailed disclosure than the statutory format on page 26**Error! Bookmark not defined.** in order to enable a better understanding of the results of Heathrow's operations.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Turnover	**2,694**	2,478
Adjusted operating costs[1]	**(1,135)**	(1,063)
Adjusted EBITDA[2]	**1,559**	1,415
Exceptional items	**(216)**	(114)
EBITDA	**1,343**	1,301
Depreciation – ordinary	**(572)**	(448)
Operating profit	**771**	853
Net interest payable and similar charges	**(480)**	(409)
Profit on ordinary activities before taxation	**291**	444
Tax credit on profit on ordinary activities	**(80)**	(109)
Profit on ordinary activities after taxation	**211**	335

1 Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
2 Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.

Turnover
In the year ended 31 December 2014, the Company's turnover increased 8.7% to £2,694 million (2013: £2,478 million). This reflects increases of 12% and 3.2% in aeronautical and retail income respectively, and 3.6% increase in other sources of income.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Aeronautical income	**1,706**	1,523	12.0
Retail income	**503**	487	3.2
Other income	**485**	468	3.6
Total turnover	**2,694**	2,478	8.7

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.

Strategic report *continued*

Financial review continued

Retail income

In the year ended 31 December 2014, Heathrow's retail income increased 3.2% to £503 million (2013: £487 million). Net retail income ('NRI') grew 3.9% to £479 million (2013: £461 million) and NRI per passenger rose 1.6% to £6.53 (2013: £6.43).

	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**	90	10.0
Gross retail income	**503**	487	3.2
Retail expenditure	**(24)**	(26)	(7.7)
Net retail income	**479**	461	3.9

Car parking revenue led the growth in retail income and in 2014 grew by 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 and reflects a number of 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.

Other income

In the year ended 31 December 2014, other income totalled £485 million (2013: £468 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.

Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the year ended 31 December 2014, adjusted operating costs increased 6.6% to £1,133 million (2013: £1,063 million).

	Year ended 31 December 2014 £m	Restated[1] Year ended 31 December 2013 £m	Change %
Employment costs	**367**	368	(0.2)
Maintenance expenditure	**160**	148	8.1
Utility costs	**92**	83	9.2
Rents and rates	**130**	115	10.8
Other general expenses	**359**	323	11.1
Retail expenditure	**25**	26	(3.8)
Total	**1,133**	1,063	6.6

[1] Adjusted operating costs has been restated to be consistent with the year ended 31 December 2014

As expected, 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

Financial review continued

Adjusted operating costs continued

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 £35 million in aggregate of which over half related to operating Terminal 2.

The £35 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.

Following the sale of the airports group in December, around £5 million of corporate centre costs have been consolidated into Heathrow operating expenses.

Operating costs 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 10.2% to £1,559 million (2013: £1,415 million), resulting in an Adjusted EBITDA margin of 58% (2013: 57%). The increase in Adjusted EBITDA principally reflects the increase in aeronautical income.

Operating profit

The Company recorded an operating profit for the year ended 31 December 2014 of £771 million (2013: £853 million). Reconciliation of Adjusted EBITDA and statutory operating result is provided below.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Adjusted EBITDA	**1,559**	1,415	10.2
Depreciation	**(572)**	(448)	(27.6)
Exceptional items – pensions	**(190)**	(76)	(150.0)
Exceptional items – other	**(26)**	(38)	31.5
Operating profit	**771**	853	(9.6)

Depreciation

Depreciation for the year ended 31 December 2014, excluding exceptional charges, was 27.6% higher at £572 million (2013: £448 million).

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: pensions

Items within operating profit include £190 million non-cash pension related charge (2013: £76 million). This relates to the Company's share of the net actuarial loss on the LHR Airports Limited defined benefit pension scheme during the period.

Exceptional items: other

£8 million of restructure costs were incurred due to a significant restructure of the organisation that began in 2014 as part of the programme to deliver operational efficiencies during Heathrow's next regulatory period. Due to the size and nature of the programme, these charges are classified as exceptional operating items.

In 2014, operational readiness costs of £18 million relating to Heathrow Terminal 2 were incurred which are mainly due to familiarisation, induction and training activities and the ramp up of operational costs following the move of Terminal 2 from the construction phase to the operational phase.

Strategic report *continued*

Financial review continued

Capital expenditure

In the year ended 31 December 2014, the Company incurred capital expenditure of £730 million (2013: £1,335 million), the most significant areas being the new main Terminal 2 building, the second phase of Terminal 2's satellite building and the new integrated baggage system for Terminal 3.

Dividends

Dividends of £419 million were paid during the year (2013: £360 million). These were used to partially fund dividends to ultimate shareholders and partially to service external debt within the Heathrow Group.

Pension scheme

At 31 December 2014, the LHR Airports Limited defined benefit pension scheme had a deficit of £199 million (2013: £93 million) as measured under FRS 17, of which £198 million (2013: £81 million) was attributable to the Company under the Shared Services Agreement. The increase in the Company's share of the deficit is primarily as a result of an increase in the discount rate applied to the pension scheme obligation, offset by returns on pension assets and employer cash contributions.

At 31 December 2014, LHR Airports Limited's Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical Benefits pension schemes had a combined deficit of £30 million (2013: deficit of £29 million) as measured under FRS17. The Company's share of this deficit amounts to £30 million (2013: deficit of £25 million).

In January 2015, the trustee of the HAH Group defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustees' 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

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.

Accounting and reporting policies and procedures

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')). The Company's accounting policies and areas of significant accounting judgements and estimates are detailed within the Company financial statements.

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 and by continued growth of non-aeronautical revenue.

Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) 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.

Heathrow Airport Limited

Leadership and Governance

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

Board of Directors of Heathrow Airport Holdings Limited
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 of Heathrow Airport Holdings 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 of Heathrow Airport Holdings Limited
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 of Heathrow Airport Holdings Limited and is responsible for:

- considering the appointment of the external auditor, making appropriate recommendations to the Board, and assesses 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 Heathrow Airport Holdings Limited 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 of Heathrow Airport Holdings Limited
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 of Heathrow Airport Holdings Limited.

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.

Leadership and Governance *continued*

Finance Committee of Heathrow Airport Holdings Limited
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 Heathrow Airport Holdings Limited 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 Heathrow group.

Executive Committee of Heathrow Airport Holdings Limited
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. They ensure the delivery of agreed strategies by providing guidance, approvals, governance and monitoring.

Safety and Operational Risk Committee [of Heathrow Airport Holdings Limited]
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 Heathrow Airport Holdings Limited 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.

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.

Internal controls and risk management continued

Risk management *continued*

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.

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.

Internal controls and risk management continued

Risk management *continued*

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.

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 Company's financial risk management objectives are aligned with Heathrow Airport Holdings Limited, and also with Heathrow (SP) Limited which is the parent undertaking of the smallest group to consolidate these financial statements and the level at which financial risks for the Company are managed. The treasury policies of the SP Group are set out below.

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

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Heathrow Airport Holdings Group's business operations and funding. To achieve this, the Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

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

(a) Interest rates

The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2014, fixed rate debt after hedging with derivatives represented 98% of the SP Group's total external nominal debt.

(b) Inflation

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

(c) Foreign currency

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

(d) Funding and liquidity

The SP Group has established an investment grade financing platforms for Heathrow. This platform supports term loans, various revolving loan facilities including revolving credit facilities, working capital facilities and liquidity facilities, and Sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the AC, the Board and Executive Committee.

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

The SP Group has positive cash flows after capital expenditure and interest and maintains at least 12 months' headroom under its revolving credit facilities. As at 31 December 2014, cash and cash equivalents and term deposits were £438 million, undrawn headroom under revolving credit facilities was £1,525 million and undrawn headroom under liquidity facilities was £750 million.

Heathrow Airport Limited

Internal controls and risk management continued

Risk management ***continued***
Financial stability continued

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

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

On behalf of the Board

José Leo

Director

18 March 2015

Heathrow Airport Limited

Directors' report

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

Principal activities
The Company owns Heathrow airport and operates HEX, the express rail service between Heathrow and central London. The Company is entitled to all receipts and income relating to HEX but the day-to-day operation of HEX is undertaken on behalf of the Company by Heathrow Express Operating Company Limited, a subsidiary of the Company.

A review of the progress of the Company's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are reported in the strategic report on pages 2 to 20.

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

Results and dividends
The profit after taxation for the financial year amounted to £211 million (2013: £335 million).

Dividends of £419 million were paid during the year (2013: £360 million). These were used to partially fund dividends to ultimate shareholders and partially to service external debt within the Heathrow Group. The statutory results for the year are set out on page 26.

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

Ian Ballentine	
Normand Boivin	
Neil Clark	
Emma Gilthorpe	
Clare Harbord	
John Holland-Kaye	
Carol Hui	
Jim O'Sullivan	Resigned 31 December 2014
José Leo	
Fidel López	Resigned 1 September 2014
Colin Matthews	Resigned 30 June 2014
Paula Stannett	

Employment policies
The Company has no direct employees. The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the Heathrow Airport Holdings Group.

Supplier payment policy
The Company 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 Company had 32 days purchases outstanding at 31 December 2014 (2013: 18 days) based on the average daily amount invoiced by suppliers during the year.

Directors' report *continued*

Donations

The Company'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 Heathrow 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 the Group's airports with a priority on funding projects linked to education, the environment and economic generation.
Oxfam	£ 282,000	The Heathrow 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 Company actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Company's risk management policies can be found on pages 17 to 20 in the internal controls and risk management section of the strategic report.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies, including hedging policies, along with the Company's exposure to risk, can be found on pages 19 and 20 in the Internal controls and risk management section of the Strategic report.

Directors' indemnity

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

Auditor

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

Directors' report *continued*

Statement of disclosure of information to the Auditor
Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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

On behalf of the Board

José Leo
Director

18 March 2015

Company registration number: 01991017

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

On behalf of the Board

José Leo
Director

18 March 2015

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

We have audited the financial statements of Heathrow Airport Limited for the year ended 31 December 2014 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew J. Kelly FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
18 March 2015

Heathrow Airport Limited

Profit and loss account for the year ended 31 December 2014

	Note	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Turnover	*1*	**2,694**	2,478
Operating costs – ordinary	*2*	**(1,707)**	(1,511)
Operating costs – exceptional: pensions	*3*	**(190)**	(76)
Operating costs – exceptional: other	*3*	**(26)**	(38)
Total operating costs		**(1,923)**	(1,625)
Operating profit		**771**	853
Net interest payable and similar charges	*4*	**(480)**	(409)
Profit on ordinary activities before taxation		**291**	444
Tax charge on profit on ordinary activities	*5*	**(80)**	(109)
Profit on ordinary activities after taxation	*16*	**211**	335

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

Statement of total recognised gains and losses for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit for the financial year	*16*	**211**	335
Unrealised gain on revaluation of investment properties	*6,16*	**80**	31
Total recognised gains relating to the year		**291**	366

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

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit for the financial year	*16*	**211**	335
Unrealised gain on revaluation of investment properties	*6,16*	**80**	31
Capital contribution[1]	*16*	**35**	836
Dividends paid	*16*	**(419)**	(360)
Deferred tax on retirement benefits	*16*	**(4)**	-
Net movement in shareholder's funds		**(97)**	842
Opening shareholder's funds		**2,435**	1,593
Closing shareholder's funds		**2,338**	2,435

[1] On 20 February 2014 and 4 February 2013 intercompany loans with Heathrow (AH) Limited were waived leading to capital contributions in the Company.

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

Heathrow Airport Limited

Balance sheet as at 31 December 2014

	Note	**31 December 2014 £m**	31 December 2013 £m
Fixed assets			
Tangible fixed assets	*6*	**13,153**	12,829
Investment in subsidiary	*7*	**4**	4
Total fixed assets		**13,157**	12,833
Current assets			
Stocks	*8*	**10**	9
Debtors (including amounts due after more than one year of £1,786 million (2013: £1,798 million))	*9*	**2,142**	2,148
Current asset investments	*10*	**238**	75
Cash at bank and in hand		**197**	15
Total current assets		**2,587**	2,247
Current liabilities			
Creditors: amounts falling due within one year	*11*	**(1,341)**	(1,351)
Net current assets		**1,246**	896
Total assets less current liabilities		**14,403**	13,729
Creditors: amounts falling due after more than one year	*12*	**(11,574)**	(10,982)
Provisions for liabilities and charges	*14*	**(491)**	(312)
Net assets		**2,338**	2,435
Capital and reserves			
Share capital	*15,16*	**473**	473
Revaluation reserve	*16*	**540**	460
Profit and loss reserve	*16*	**1,325**	1,502
Total shareholder's funds		**2,338**	2,435

The financial statements of Heathrow Airport Limited (Company registration number: 01991017) were approved by the Board of Directors and authorised for issue on 18 March 2015. They were signed on its behalf by:

John Holland-Kaye
Director

José Leo
Director

Accounting policies for the year ended 31 December 2014

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

Basis of accounting
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with applicable Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

As a result of the review, and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date.

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

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

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and consists primarily of:

Aeronautical

- Passenger charges based on the number of departing passengers on departure.
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on 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 turnover 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 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.

Accounting policies for the year ended 31 December 2014 continued

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

Such events may include gains or losses on the disposal of businesses or assets, 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.

The Company is required to fund a share of the Heathrow Airport Holdings group (the 'Heathrow Airport Holdings Group') defined benefit pension scheme deficit, Unfunded Unapproved Retirement Benefit Scheme ('UURBS') and Post-Retirement Medical Benefit Scheme ('PRM') pension related liabilities under the Shared Services Agreement. The Company's share of the movement in these liabilities is also treated as exceptional. Refer to the Shared Services Agreement accounting policy.

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

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

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

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

Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is valued at the reporting date by external valuers. Any surplus or deficit on revaluation is transferred to the revaluation reserve with the exception of deficits below original cost which are expected to be permanent, which are charged to the profit and loss account in the period in which they arise.

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits or losses are recognised on completion.

In accordance with Statement of Standard Accounting Practice 19 *Accounting for Investment Properties*, no depreciation is provided in respect of freehold or long leasehold investment properties.

Capitalisation of interest
Interest payable resulting from financing tangible fixed assets that are in the course of construction is 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 profit and loss account as a depreciation expense over the life of the relevant asset.

Accounting policies for the year ended 31 December 2014 continued

Tangible fixed assets *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:

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20 - 60 years
Terminal fixtures and fittings	5 - 20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment including runway lighting and building plant	5 - 20 years
Tunnels, bridges and subways	50 - 100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10 - 15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Rolling stock	8 - 40 years
Tunnels	100 years
Track metalwork	5 - 10 years
Track bases	50 years
Signals and electrification work	40 years
Other land and buildings	
Short leasehold properties	over period of lease
Leasehold improvements	lower of useful economic life or period of lease
Plant equipment and other assets	
Motor vehicles	4 - 8 years
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Computer software	3 - 7 years

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

Impairment of assets (excluding investment in subsidiaries)
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value 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 an asset exceeds its recoverable amount, the asset 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.

Accounting policies for the year ended 31 December 2014 continued

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

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

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

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

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

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

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

Stocks
Raw materials and consumables consist of engineering spares and other consumable stores. These are valued at the lower of cost and net realisable value and include all costs to bring stocks to their present location and condition.

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

Cash and current asset investments
Cash, for the purpose of the summary cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Creditors
Creditors are recognised at cost.

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

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

Accounting policies for the year ended 31 December 2014 continued

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

The borrowings from group undertakings include the balance of the Borrower Loan Agreement ('BLA') payable by the Company to Heathrow Funding Limited. The advances under the BLA are issued on substantially the same terms as the new bonds issued by Heathrow Funding Limited, taking into consideration the related hedging instruments. The advances are carried at amortised cost with interest expense recognised using the effective interest rate method. For index-linked BLA's, the nominal amount is adjusted for movements in the relevant price index. This accretion expense is recorded within interest payable in the profit and loss account.

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

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

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company 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.

Issue costs and arrangement fees
Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

Issue costs are those that are incurred directly in connection with the issue of a capital instrument, that would not have been incurred had the instruments not been issued. These are accounted for as a deduction from the fair value of consideration received and amortised using the effective interest rate method.

Facility and arrangement fees resulting from the negotiation of finance that do not qualify as issue costs are written off to the profit and loss account as incurred.

Derivative financial instruments
The derivative financial instruments utilised by the Company are interest rate swaps and index-linked swaps. Interest rate swaps are used to hedge the risk that arises from the borrowings with variable interest rates. Index-linked swaps are used to hedge the Company's RPI linked revenue and RAB.

The derivative financial instruments are accounted for on an accruals basis. The net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship the interest payable and receivable on those derivatives are recorded at their gross amounts in interest payable and interest receivable in the profit and loss account, respectively. The net interest receivable or payable accrued on derivatives is included in current debtors or current creditors on the balance sheet.

Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Limited Group are transferred at fair value prevailing on that date. Premiums payable or receivable, on the novation of derivative financial instruments, are amortised over the term of the financial instruments.

Shared Services Agreement ('SSA')
All employees of the Company are employed by LHR Airports Limited. LHR Airports Limited grants all employee benefits and sponsors the defined benefit pension schemes while the Company incurs any staff related costs.

On 18 August 2008, the Company entered into a SSA with LHR Airports Limited by which the latter became the shared services provider for the Company. 2013 saw a change in the way in which costs were incurred with the Company incurring its cost of operational staff and corporate services. These services are charged to the relevant Heathrow Airport Holdings Group airport in accordance with the SSA.

Accounting policies for the year ended 31 December 2014 continued

Operational staff
The Company incurs the cost of staff which are contractually employed by LHR Airports Limited but provide services to the operation of the airport. Charges in relation to staff costs include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other associated expenses properly incurred by the employees of LHR Airports Limited in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to employee share options.

Corporate and centralised services
During 2013, LHR Airports Limited transferred various central services to the Company such as IT applications, general business services, procurement and financial accounting. Under the new structure, costs previously incurred by LHR Airports Limited are now borne by the Company and any elements relating to airports other than Heathrow have been subsequently recharged to LHR Airports Limited with a mark-up consistent with the SSA. LHR Airports Limited then recharge the other airports without a mark-up.

Pension costs
The Company has had an obligation since August 2008 to fund or benefit from its share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and UURBS and PRM pension related liabilities under the SSA. These provisions or assets are based on the relevant share of the scheme deficit or surplus and allocated on the basis of pensionable salaries. Movements in these provisions or assets arise due to current service costs, net interest costs or income, employer cash contributions and actuarial gains or losses. The Company records its share of the net actuarial gain or loss for the year as an exceptional item due to its size and nature.

Under the SSA the current service costs are recharged to the Company on the basis of pensionable salaries. This charge is included within Operating costs - pensions. Cash contributions are made directly by the Company to the pension schemes on behalf of LHR Airports Limited.

As more than one employer participates in the LHR Airports Limited defined benefit pension scheme and each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the Company accounts for the scheme in accordance with the SSA. Additional disclosures on the pension scheme have been provided in the statutory Annual report and financial statements of Heathrow Airport Holdings Limited and FGP Topco Limited.

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 taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse.

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

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

Accounting policies for the year ended 31 December 2014 continued

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

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

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

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2014. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited, which is the intermediate parent entity and the smallest group to consolidate these financial statements, Heathrow Finance plc and Heathrow Airport Holdings Limited, for the year ended 31 December 2014. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements (Revised 1996)*. Instead, a summary cash flow statement has been provided on a voluntary basis in a note to the financial statements.

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.

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

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

Investment properties
Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors. The valuations were prepared in accordance with relevant accounting standards and 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: 81%) 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.

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

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 UK 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 creditors.

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.

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

1 Segment information

The directors consider the business has only one segment. All of the Company's turnover arises in the United Kingdom and relates to continuing operations. Additional details of the turnover generated by each of the Company's key activities are given below:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Turnover		
Aeronautical income	**1,706**	1,523
Retail income	**503**	487
Operational facilities and utilities income	**177**	165
Property rental income	**108**	104
Heathrow Express rail income[1]	**129**	124
Other income	**71**	75
	2,694	2,478

1 The Company is entitled to all receipts relating to HEX, the express rail service between Heathrow and Central London, but the day-to-day operation of HEX is undertaken by Heathrow Express Operating Company Limited, on behalf of the Company, for which a management fee is charged and included within 'Intra-group charges/other' in Note 2.

2 Operating costs - ordinary

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Wages and salaries	**275**	267
Social security	**25**	25
Pensions	**53**	51
Other staff related costs	**14**	25
Employment costs	**367**	368
Maintenance expenditure	**160**	148
Utility costs	**92**	83
Rents and rates	**130**	115
General expenses	**359**	323
Retail expenditure	**25**	26
Depreciation	**574**	448
	1,707	1,511

Rentals under operating leases

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Operating costs include:		
Other[1]	**36**	33
Land and buildings[2]	**15**	15

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

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

2 Operating costs - ordinary *continued*

Auditor's remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by LHR Airports Limited and recharged in accordance with the SSA as described within the Accounting policies.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts		
Audit of the Company pursuant to legislation	**0.4**	0.4
Fees payable to the Company's auditor and their associates for other services specific to the Company		
Audit related assurance services	**0.2**	0.3
Other tax services	**0.2**	0.1
Other assurance services	**0.2**	0.1
Total non-audit fees	**0.6**	0.5
Total fees	**1.0**	0.9

Employee information

The Company has no employees (2013: nil). Staff engaged in the operation of Heathrow airport are employed by LHR Airports Limited which bears the related staff costs and recharges all such costs directly to the Company as a part of the SSA as described in the Accounting policies. The average number of employees of LHR Airports Limited engaged in the operation of Heathrow airport during the year was 6,441 (2013: 6,271).

Directors' remuneration

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Directors' remuneration		
Aggregate emoluments[1,2]	**5,080**	5,052
Value of Company pension contributions	**239**	477
Termination benefits	**-**	758
	5,319	6,287

[1] Aggregate emoluments includes accrued salaries, allowances, bonuses and amounts payable under Long Term Incentive Plans ('LTIP').
[2] £1,618,000 of bonus was paid in cash in 2014 (2013: £1,160,000).

José Leo and Colin Matthews were directors of a number of companies within the Heathrow Airport Holdings Group, including LHR Airports Limited, during the year, although Colin Matthews resigned on 30 June 2014. Their remuneration for the year ended 31 December 2014 was disclosed in the financial statements of Heathrow Airport Holdings Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided and therefore their remuneration is not included in the numbers above. John Holland-Kaye became a director of the Heathrow Airport Holdings Group on 1 July 2014. His remuneration from this date is disclosed in the financial statements of Heathrow Airport Holdings Limited and prior to this date is disclosed in these financial statements.

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 £976,000 payable in 2015 (2013: £369,000 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.

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

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

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Highest paid director's remuneration		
Aggregate emoluments[1 2]	**839**	811
Value of Company pension contributions	**47**	33
	886	844

[1] Aggregate emoluments includes accrued salary, allowances, bonus and amounts payable under LTIP.
[2] £264,000 of bonus was paid in cash in 2014 (2013: £169,000).

The highest paid director also 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 director's remuneration includes £148,000 payable in 2015 (2013: £86,000 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.

	Year ended 31 December 2014	Year ended 31 December 2013
Number of directors who are members of a:		
defined benefit pension scheme	**2**	4
defined contribution pension scheme	**6**	6

One of the directors (2013: two) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2013: none) were received or became receivable under the Plans.

3 Exceptional items

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Pension charge	**(190)**	(76)
Restructuring	**(8)**	(22)
Terminal 2 operational readiness	**(18)**	(16)
Total exceptional items	**(216)**	(114)

The £190 million non-cash pension charge (2013: £76 million) relates to the Company's share of the actuarial losses under the Heathrow Airport Holdings Group's pension schemes since 31 December 2013.

Costs associated with the Company'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.

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

4 Net interest payable and similar charges

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Interest receivable			
Interest receivable from other group undertakings[1]		**136**	130
Interest receivable on bank deposits		**3**	1
Pensions finance income		**12**	7
		151	138
Interest payable			
Interest payable to other group undertakings[2]		**(668)**	(669)
Interest on bank borrowings		**(28)**	(15)
Facility fees and other charges		**(14)**	(16)
Net interest payable on derivative financial instruments		**(15)**	(17)
Dividend payable on irredeemable preference shares[3]		**(1)**	(1)
Pension finance costs		**(1)**	-
Unwinding of discount on provision		**(1)**	(1)
		(728)	(719)
Fair value gain on financial instruments		**8**	8
Interest capitalised[4]	*6*	**89**	164
Net interest payable and similar charges		**(480)**	(409)

1 These amounts relate primarily to interest accrued on balances due from Heathrow (SP) Limited (Note 9).
2 These amounts relate mainly to interest due on the BLA advances and back-to-back derivatives with Heathrow Funding Limited and interest on the loan from Heathrow (AH) Limited. (Note 13).
3 Dividend payable for the year ended 31 December 2014 was 4.40p per share (2013: 4.55p per share).
4 Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.87% (2013: 6.04%) to expenditure incurred on such assets.

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

5 Tax charge on profit on ordinary activities

	Note	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Current tax			
Group relief payable		**37**	60
Current tax		**(7)**	-
Adjustments in respect of prior periods		**(3)**	2
Total current tax charge		**27**	62
Deferred tax			
Origination and reversal of timing differences		**49**	71
Adjustments in respect of prior periods		**4**	(5)
Change in tax rate		**-**	(19)
Total deferred tax charge	*14*	**53**	47
Tax charge on profit on ordinary activities		**80**	109

Reconciliation of tax charge

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit on ordinary activities before tax	**291**	444
Tax charge on profit on ordinary activities at 21.5% (2013: 23.25%)	**63**	103
Effect of:		
Permanent differences	**16**	20
Capital allowances in excess of depreciation	**(61)**	(44)
Capitalised interest	**(18)**	(33)
Other short term timing differences	**30**	14
Adjustments in respect of prior periods	**(3)**	2
Current tax charge for the year	**27**	62

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. These changes have been reflected above. Other than the unprovided deferred tax discussed at note 14, there are no other items which would materially affect the future tax charge.

Notes to the Financial Statements for the year ended 31 December 2014 *continued*

6 Tangible fixed assets

	Note	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfield £m	Rail assets £m	Other land and buildings £m	Plant equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation										
1 January 2014		1,738	49	8,163	1,072	1,395	127	539	3,700	16,783
Additions at cost		-	-	-	-	-	-	3	727	730
Transfers to completed assets		166	-	2,657	107	11	9	504	(3,454)	-
Interest capitalised	*4*	-	-	-	-	-	-	-	89	89
Impairment		(2)	-	-	-	-	-	-	-	(2)
Disposals		-	-	(119)	(3)	(2)	(5)	(56)	(2)	(187)
Reclassification		14	-	(13)	1	-	-	(3)	(1)	(2)
Revaluation	*16*	56	24	-	-	-	-	-	-	80
31 December 2014		**1,972**	**73**	**10,688**	**1,177**	**1,404**	**131**	**987**	**1,059**	**17,491**
Depreciation										
1 January 2014		-	-	(2,863)	(310)	(392)	(45)	(343)	(2)	(3,955)
Depreciation charge	*2*	-	-	(400)	(34)	(43)	(6)	(89)	-	(572)
Disposals		-	-	119	3	2	5	56	2	187
Reclassifications		-	-	-	-	-	-	2	-	2
31 December 2014		**-**	**-**	**(3,144)**	**(341)**	**(433)**	**(46)**	**(374)**	**-**	**(4,338)**
Net book value 31 December 2014		**1,972**	**73**	**7,544**	**836**	**971**	**85**	**613**	**1,059**	**13,153**
Net book value 31 December 2013		1,738	49	5,300	762	1,003	82	196	3,698	12,828

Valuation

Investment properties were valued at open market value by CBRE Limited, Chartered Surveyors at £2,045 million (2013: £1,787 million). These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, *inter alia*, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a surplus of £56 million (2013: surplus of £31 million) has been recognised in the revaluation reserve.

Remaining terminal complexes, airfield infrastructure, plant and equipment and other land and buildings have been shown at historical cost.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2014 was £787 million (2013: £612 million).

Notes to the Financial Statements for the year ended 31 December 2014 *continued*

Other land and buildings
Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2014 of £9 million (2013: £17 million).

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

Capitalised interest
Included in the net book value of fixed assets are interest costs of £1,153 million (2013: £1,064 million). £89 million (2013: £164 million) has been capitalised in the year at a capitalisation rate of 5.87% (2013: 6.04%) based on a weighted average cost of borrowings.

A tax deduction of £89 million (2013: £164 million) for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

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

	31 December 2014	31 December 2013
	£m	£m
Cost or valuation	**2,719**	2,444
Accumulated depreciation	**(209)**	(243)
Net book value	**2,510**	2,201

A significant proportion of freehold property is occupied by third parties under concession and management agreements. Lower accumulated depreciation reflects a downward revision to the depreciation rates.

7 Investment in subsidiary

	£m
Cost as at 1 January and 31 December 2014	**4**

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

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

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

Notes to the Financial Statements for the year ended 31 December 2014 *continued*

8 Stocks

	31 December 2014 £m	31 December 2013 £m
Raw materials and consumables	**10**	9

The replacement cost of raw materials and consumables at 31 December 2014 and 31 December 2013 was not materially different from the amount at which they are included in the balance sheet.

9 Debtors

	31 December 2014 £m	31 December 2013 £m
Due within one year		
Trade debtors	**204**	166
Amounts owed by group undertakings – interest free[1]	**44**	11
Other debtors	**12**	35
Prepayments	**23**	61
Interest receivable	**53**	49
Net interest receivable on derivative financial instruments	**20**	25
Derivative interest prepayment	**-**	3
	356	350
Due after more than one year		
Amounts owed by group undertakings – interest bearing[2]	**1,763**	1,761
Prepaid debt fees	**6**	21
Prepayments	**17**	16
	1,786	1,798
Total debtors	**2,142**	2,148

1 Amounts owed by group undertakings – interest free largely relate to external payments received by LHR Airports Limited under the SSA on behalf of the Company which will be remitted in due course.
2 Amounts owed by group undertakings – interest bearing represents a loan receivable from Heathrow (SP) Limited. It has a fixed interest rate of 7.57%.

10 Current asset investments

	31 December 2014 £m	31 December 2013 £m
Short-term deposits	**238**	75

Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short- and long-term credit ratings. Of these deposits, counterparties with a short-term credit rating of A-1 and A-2 held assets of £191 million and £47 million respectively, as at 31 December 2014 (2013: A-1+ held £75 million).

11 Creditors: amounts falling due within one year

	Note	31 December 2014 £m	31 December 2013 £m
Trade creditors[1]		**123**	122
Capital creditors		**176**	301
Amounts owed to group undertakings – interest free[2]		**102**	88
Amounts owed to group undertakings – interest bearing[3]		**19**	-
Borrowings from group undertakings – interest bearing	*13*	**625**	520
External borrowings	*13*	**39**	39
Corporation tax payable		**-**	6
Group relief payable		**2**	28
Other creditors		**8**	8
Other taxes and social security costs		**8**	9
Deferred income		**29**	27
Net interest payable on derivative financial instruments		**22**	22
Interest payable		**188**	181
		1,341	1,351

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

12 Creditors: amounts falling due after more than one year

	Note	31 December 2014 £m	31 December 2013 £m
Loans from Heathrow Funding Limited	*13*	**10,970**	10,282
External borrowings	*13*	**236**	255
Derivative financial instruments		**364**	440
Other creditors		**4**	5
		11,574	10,982

Derivative financial instruments not included at fair value

The Company enters into derivative transactions, principally interest rate swaps, index-linked swaps and foreign exchange contracts. The purpose of these transactions is to manage interest rate, inflation and currency risks arising from the Company's operations and sources of finance.

External derivative financial instruments

As at 31 December 2014, the Company had interest rate swap contracts outstanding with bank counterparties with notional values totalling £310 million (2013: £310 million). The swaps have fixed interest payments at rates varying from 4.6% to 5.0% and floating interest receipts based on three and six month LIBOR rates. At that date, these financial instruments had a mark-to-market liability of £95 million (2013: £56 million).

Back-to-back derivative financial instruments with Heathrow Funding Limited

Heathrow Funding Limited has entered into interest rate and index-linked swaps with external counterparties which have been passed on to the Company as back-to-back derivatives. As at 31 December 2014, the total notional amount of back-to-back interest rate swaps was £1,903 million which had a marked-to-market liability of £353 million (2013: £2,026 million notional with a marked-to-market liability of £155 million). The total notional amount of back-to-back index-linked swaps was £3,373 million which had a marked-to-market liability of £381 million (2013: £3,373 million notional with a marked-to-market liability of £437 million).

Foreign exchange contracts

Foreign exchange contracts are used to manage foreign currency exposures relating to future capital expenditure. As at 31 December 2014, the Company does not have any outstanding foreign exchange contracts. (2013: £21 million notional amount in sterling terms with a fair value gain of £0.2 million)

13 Borrowings

	31 December 2014 £m	31 December 2013 £m
Current borrowings		
Secured		
Bank loans	**39**	39
Borrower Loan Agreement advances from Heathrow Funding Limited	**618**	495
Unsecured		
Loan from Heathrow (AH) Limited	**7**	25
Total current borrowings	**664**	559
Non-current borrowings		
Secured		
Borrower Loan Agreement advances from Heathrow Funding Limited	**10,970**	10,282
Revolving credit facility	**-**	80
Bank loans	**136**	175
Term note – 3.77% £100 million due 2026	**100**	-
Total non-current borrowings	**11,206**	10,537
Total borrowings	**11,870**	11,096

Borrowings from group undertakings
Unsecured borrowings from group undertakings represent the loan advanced by parent, Heathrow (AH) Limited, to the Company. The loan bears an interest rate of 7.57% per annum.

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

During the year, following new bonds issued by Heathrow Funding Limited, further advances were made to the Company for £1,269 million (2013: £742 million), net of transaction costs. In the same period, the Company made repayments of £513 million (2013: £396 million). The effective interest rate on the BLA advances varies between 1.65% and 7.40% (2013: 2.64% and 7.20%).

All of the above facilities are carried at amortised cost.

Facilities
The Company had £1,525 million undrawn committed borrowing facilities available as at 31 December 2014 (2013: £2,095 million).

In addition, as at 31 December 2014, there was an overdraft limit up to a maximum net overdraft balance of £10 million (2013: £10 million).

14 Provisions for liabilities and charges

	Deferred tax (a) £m	Pension Costs (b) £m	Other (c) £m	Total £m
1 January 2014	190	106	16	312
Utilised in the year	-	-	(4)	(4)
Charged to profit and loss account	53		-	53
Movement in pensions[1]	-	122	-	122
Unwinding of discount	-	-	1	1
Charged to reserves	4	-	-	4
Transfer in	3	-	-	3
31 December 2014	**250**	**228**	**13**	**491**

[1] The movement in pensions is caused by a number of items including the exceptional charge relating to the share of actuarial gains and losses, the net pensions financing result, current service costs and past service costs offset by cash contributions made by the Company.

(a) ***Deferred tax***
Analysis of the deferred tax balances is as follows:

	31 December 2014 £m	31 December 2013 £m
Excess of capital allowances over depreciation	**290**	212
Other timing differences	**(40)**	(22)
	250	190

	Unprovided	
	31 December 2014 £m	31 December 2013 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**196**	170
Tax on rolled-over gains if replacement assets were sold at their current valuations	**7**	7
	203	177

Provision has been made for deferred taxation in accordance with FRS 19 *Deferred Tax.*

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided for is £203 million (2013: £177 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

(b) Pension costs
The closing provision is the share of the net deficit of the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical pension liabilities allocated to the Company.

At 31 December 2014, £198 million represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2013: £81 million). The remaining £30 million (2013:.£25 million) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical pension liabilities.

(c) 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.

Notes to the Financial Statements for the year ended 31 December 2014 *continued*

15 Share capital

	£
Called up, allotted and fully paid	
1 January 2014 and 31 December 2014:	
1,575,570,317 ordinary shares of £0.30 each	472,671,095
100,000 preference shares – redeemable of £1 each	100,000
21,960,014 preference shares – irredeemable of £0.01 each	219,600

16 Reserves

	Share Capital £m	Revaluation reserve £m	Profit and loss reserve £m	Total £m
1 January 2014	473	460	1,502	2,435
Capital contribution[1]	-	-	35	35
Dividends paid[2]	-	-	(419)	(419)
Profit for the financial year	-	-	211	211
Deferred tax on retirement benefits	-	-	(4)	(4)
Unrealised gain on revaluation of investment properties	-	80	-	80
31 December 2014	**473**	**540**	**1,325**	**2,338**

[1] On 21 February 2014 an intercompany loan with Heathrow (AH) Limited was waived leading to a capital contribution in the Company.
[2] During the year ended 31 December 2014, the Company paid dividends of £419 million to Heathrow (AH) Limited comprising £59 million on 21 February 2014, £79 million on 27 June 2014, £56 million on 25 July 2014, £85 million on 23 September 2014 and £140 million on 18 December 2014.

17 Commitments

Non-cancellable operating lease commitments – Company 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 £m	**Other £m**	Land and buildings £m	Other £m
Within one year	-	-	2	-
Within two to five years	**8**	-	8	-
After five years	**4**	**36**	4	34
	12	**36**	14	34

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

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

Non-cancellable operating lease commitments – Company as a lessor

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

	31 December 2014	31 December 2013
	Land and buildings £m	Land and buildings £m
Within one year	**4**	5
Within two to five years	**8**	29
After five years	**52**	58
	64	92

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

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

17 Commitments *continued*

Commitments for capital expenditure

	31 December 2014 £m	31 December 2013 £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

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

18 Contingent liabilities

The Company has contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £1 million at 31 December 2014 (2013: £1 million).

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

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

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

19 Ultimate parent undertaking

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

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

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2014, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc and Heathrow Airport Holdings Limited for the year ended 31 December 2014.

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

20 Summary cash flow statement

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Operating profit	**771**	853
Adjustments for:		
Depreciation (including exceptional depreciation)	**574**	448
Working capital changes:		
Decrease in stock and debtors	**(5)**	(37)
Increase in creditors	**22**	63
Increase in provisions	**(4)**	(4)
Difference between pension charge and cash contributions	**(22)**	(58)
Exceptional pension charge	**190**	76
Net cash inflow from operating activities	**1,526**	1,341
Net interest paid	**(522)**	(469)
Taxation - Group relief paid	**(60)**	(76)
Taxation – Current tax received	**1**	-
Net capital expenditure	**(855)**	(1,278)
Dividends paid	**(419)**	(360)
Net cash outflow before use of liquid resources and financing	**(329)**	(842)
Management of liquid resources		
Increase in short-term deposits	**(163)**	(42)
Financing		
Repayment of revolving credit facility	**(80)**	(227)
Issuance of term note	**100**	-
Repayment of other facilities and other items	**(47)**	(191)
Swaps novated from Heathrow Funding Limited	**-**	(2)
Capital contribution[1]	**-**	836
Net movement in amounts with group undertakings	**886**	683
Settlement of accretion on index-linked instruments	**(185)**	(177)
Increase in cash	**182**	38

[1] During the year ended 31 December 2013, this included £836 million received from Heathrow (AH) Limited relating to a loan which was waived on 15 March 2013 leading to a capital contribution in the Company.

Liquid resources are defined in the Accounting policies under 'Cash and current asset investments'.

21 Post Balance Sheet Events

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

On 11 February 2015, Heathrow Funding Limited 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. This debt has been swapped into floating Sterling debt and subsequently distributed to the Company under the terms of a BLA.

On 26 February 2015, the Board approved the payment of a £32 million dividend to the Company's parent, Heathrow (AH) Limited. On 4 March 2015, the Board approved the payment of a £80 million dividend to Heathrow (AH) Limited.

Registered office

Heathrow Airport Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England Number: 01991017