Heathrow
Making every journey better

News release

23 February 2016

Heathrow (SP) Limited
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Heathrow (SP) Limited

Results for the year ended 31 December 2015

- **Heathrow achieves its highest passenger service ever making it Europe's best hub airport**
- **More people than ever choosing Heathrow with 75.0 million passengers in 2015, up 2.2%**
- **Strong financial performance in 2015 with revenue of £2,765 million, up 2.7% and EBITDA of £1,605 million, up 3.0%. Downward trend in operating costs in second half of 2015**
- **Heathrow is the only airport in the world to sign the Paris Pledge for Action on climate change**
- **Garuda Airlines moves London services from Gatwick this year, following Vietnam Airlines and Air China. Demand to fly from Heathrow continues to outstrip supply of slots**
- **Heathrow expansion will give a £211 billion economic boost and see Heathrow become the world's most sustainable hub airport and the UK the best connected country**

At or for year ended 31 December	**2015**	2014	Change (%)
(£m unless otherwise stated)			
Revenue	**2,765**	2,692	2.7
EBITDA(1)	**1,605**	1,559	3.0
Cash generated from operations	**1,592**	1,525	4.4
Cash flow after investment and interest(2)	**361**	99	n.m
Pre-tax profit(3)	**223**	183	21.9
Heathrow (SP) Limited consolidated net debt(4)	**11,745**	11,653	0.8
Heathrow Finance plc consolidated net debt(4)	**12,670**	12,560	0.9
Regulatory Asset Base	**14,921**	14,860	0.4
Passengers (m)(5)	**75.0**	73.4	2.2
Retail revenue per passenger (£) (5)	**7.58**	7.14	6.2

Notes 1-5: see page 2

John Holland-Kaye, Chief Executive Officer of Heathrow, said:

"It's been an excellent year for Heathrow. As we approach our 70th anniversary, our colleagues are delivering the best service we've ever achieved to a record number of passengers. We're also making strong progress on our environmental commitments by reducing emissions and noise, and another set of robust financial results underpins our plans to make Heathrow the most sustainable hub airport and the UK the best connected country in the world.

I'm confident that this summer the Government will agree with its Airports Commission that expanding Heathrow is the only way to secure Britain's long-term economic future and meet environmental demands. We stand ready to deliver."

Notes

(1) EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items
(2) Cash flow after investment and interest is cash generated from operations after net capital expenditure and net interest paid
(3) Pre-tax profit before exceptional items and certain re-measurements
(4) Nominal net debt excluding intra-group loans and including inflation-linked accretion
(5) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger data

Heathrow (SP) Limited owns Heathrow airport and together with its subsidiaries is referred to as the Group. Heathrow Finance plc, also referred to as Heathrow Finance, is the parent company of Heathrow (SP) Limited.

For further information please contact

Heathrow

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Conference call to be held for creditors and credit analysts on 23 February 2016 at 3.00pm (UK time), 4.00pm (Central European time), 10.00am (Eastern Standard Time), hosted by John Holland-Kaye, Chief Executive Officer and Michael Uzielli, Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077. Participant PIN code: 13145082#

The presentation can be viewed at the Investor Centre at heathrow.com and online during the event at:
https://arkadin-trial.webex.com/arkadin-trial/onstage/g.php?d=701759373&t=a
using event password: 666648.

Heathrow (SP) Limited

Consolidated results for the year ended 31 December 2015

Contents

1 Review of the year

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

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

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

Our focus on transforming customer service has covered all aspects of the airport. Passengers are enjoying faster journeys through the airport, with reducing queue times due to more security lanes and parallel loading, improved body scanners and new biometric passport gates in immigration. Our new baggage facility in Terminal 3 helps reduce connection times. We have also been making our operations more efficient and robust. We have introduced technology and procedures to improve our resilience, including enhanced Instrument Landing Systems, which assist in low visibility, and time-based separation of arriving aircraft to facilitate more landings on windy days. These measures allow a more punctual and complete schedule to be operated, disrupting fewer passenger journeys. Passengers now have unrivalled choice from our award winning retail offering with expanded World Duty Free outlets and new stores including Chanel, Louis Vuitton and Hermes. We also opened a new business car park and independent lounges in Terminals 4 and 5.

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

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

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

2 Key business developments

2.1 Passenger traffic

In the year ended 31 December 2015 passenger traffic rose 2.2% to 75.0 million (2014: 73.4 million).

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

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

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

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

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

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

2.2 Transforming customer service

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

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

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

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

2.3 Beating the plan

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

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

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

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

2.4 Investing in Heathrow

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

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

2.5 Responsible Heathrow

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

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

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

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

2.6 Winning support for expansion

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

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

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

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

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

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

3 Financial review

3.1 Basis of presentation of financial results

Heathrow (SP) Limited ('Heathrow (SP)') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service (the 'Group').

Heathrow (SP) consolidated accounts are prepared under International Financial Reporting Standards ('IFRS'). From 1 January 2015 the Group changed its treatment of actuarial gains and losses on the Heathrow Airport Holdings Limited group's (the 'HAH Group') defined benefit pension scheme. Net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement. See Basis of preparation in Appendix 1 for further information.

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

The presentation of revenue and operating costs has been changed to more closely reflect the way in which the business is managed. Aeronautical revenue previously included income from VIP services and provision of power to aircraft, these are now allocated to retail and other revenue respectively. Operating cost categories and allocations have also changed. The principal change is a new category for Operational costs which includes costs of baggage operations, inter-terminal operations, IT, air traffic control and rents. These costs, with the exception of rents, were previously reported as General Expenses. The Maintenance category now includes cleaning which was also reported under General Expenses. The residual expenses are now categorised as Other costs. A breakdown of the previous and new revenue and operating cost categories, together with pro forma historical values, is set out in Appendix 2 and is available in excel format on the Heathrow investor centre website.

3.2 Income statement

3.2.1 Overview

In the year to 31 December 2015 the Group earned a £664 million profit after tax (2014: £98 million loss).

Year ended 31 December	**2015** **£m**	2014 £m
Excluding exceptional items and certain re-measurements		
Revenue	**2,765**	2,692
Operating costs before depreciation and amortisation	**(1,160)**	(1,133)
EBITDA[1]	**1,605**	1,559
Depreciation and amortisation	**(682)**	(572)
Operating profit	**923**	987
Net finance costs	**(700)**	(804)
Profit before tax	**223**	183
Including exceptional items and certain re-measurements		
Exceptional operating items	**236**	(194)
Fair value gain on investment properties	**95**	46
Fair value gain/(loss) on financial instruments	**148**	(154)
Tax (charge)/credit	**(38)**	21
Profit/(loss) after tax	**664**	(98)

(1) EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items

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3.2.2 Revenue

In the year ended 31 December 2015, revenue totalled £2,765 million (2014: £2,692 million).

Year ended 31 December	**2015 £m**	2014 £m	Change (%)
Aeronautical	**1,699**	1,683	1.0
Retail	**568**	524	8.4
Other	**498**	485	2.7
Total revenue	**2,765**	2,692	2.7

3.2.2.1 Aeronautical

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

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

3.2.2.2 Retail

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

Year ended 31 December	**2015 £m**	2014 £m	Change (%)
Duty and tax-free	**128**	128	0.0
Airside specialist shops	**100**	94	6.4
Bureaux de change	**53**	44	20.5
Catering	**45**	40	12.5
Other retail income	**75**	67	11.9
Car parking	**107**	99	8.1
Other services	**60**	52	15.4
Total retail revenue	**568**	524	8.4

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

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

3.2.2.3 Other

In the year ended 31 December 2015, other revenue increased 2.7% to £498 million (2014: £485 million).

Year ended 31 December	**2015 £m**	2014 £m	Change (%)
Other regulated charges	**239**	232	3.0
Heathrow Express	**132**	129	2.3
Property and other	**127**	124	2.4
Total other revenue	**498**	485	2.7

The increase was driven by growth in utility charges and higher property rental income following the opening of Terminal 2. In addition, Heathrow Express is stimulating demand through an increased product range including advance purchase tickets and promotions such as 'Kids Go Free'.

3.2.3 Operating costs

In the year ended 31 December 2015, operating costs excluding depreciation, amortisation and exceptional items increased 2.4% to £1,160 million (2014: £1,133 million).

Year ended 31 December	**2015 £m**	2014 £m	Change (%)
Employment	**384**	390	(1.5)
Operational	**242**	260	(6.9)
Maintenance	**187**	174	7.5
Business rates	**123**	114	7.9
Utilities	**92**	94	(2.1)
Other	**132**	101	30.7
Total operating costs	**1,160**	1,133	2.4

Cost control was strong and on an improving trend throughout 2015, resulting in £7 million lower year on year costs in the final quarter of the year. Overall costs for 2015 reflect almost £20 million related to the full year operation of Terminal 2 and the start of Terminal 3 baggage facility operations offset by savings from the wind-down of Terminal 1. An additional £12 million was also incurred on expansion planning activities, compared to 2014. Adjusting for this, underlying costs in 2015 were flat versus 2014.

The improving cost trend was driven by an ongoing focus on employment costs which were 1.5% lower than in 2014. This reflects the benefits of new starter rates, increased productivity and lower overall headcount. In addition, costs related to the defined benefit pension scheme reduced following the implementation of agreed changes to the scheme in October. Operational and maintenance costs reflect savings from improved supplier terms including baggage system operation and maintenance, car parking and air traffic control services. The lower operating costs are partially offset by higher business rates; Heathrow is one of the largest rates payers in the UK.

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

3.2.4 Operating profit

For the year ended 31 December 2015, the Group recorded an operating profit after exceptional items but before certain re-measurements of £1,159 million (2014: £793 million).

Year ended 31 December	**2015 £m**	2014 £m	Change (%)
EBITDA before certain re-measurements	**1,605**	1,559	3.0
Depreciation and amortisation	**(682)**	(572)	19.2
Exceptional items	**236**	(194)	n.m.
Operating profit before certain re-measurements	**1,159**	793	46.2

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In the year ended 31 December 2015, EBITDA (before certain re-measurements and exceptional items) increased 3.0% to £1,605 million (2014: £1,559 million), resulting in an EBITDA margin of 58.0% (2014: 57.9%). Depreciation increased substantially to £682 million (2014: £572 million), mainly reflecting the impact of Terminal 2, the new Terminal 3 baggage facility and accelerated depreciation of Terminal 1.

3.2.5 Exceptional items

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

Year ended 31 December	**2015 £m**	2014 £m
Pension scheme: changes to terms	**236**	-
Pension scheme: actuarial gains and losses	**-**	(176)
Terminal 2 operational readiness	**-**	(18)
Exceptional pre-tax credit/(charge)	**236**	(194)

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

3.2.6 Taxation

For the year ended 31 December 2015, the profit before tax, exceptional items and certain re-measurements of £223 million resulted in a tax charge on ordinary activities of £54 million. This results in an effective tax rate of 24.2%, compared to the UK statutory rate of 20.25%. The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total charge recognised was £38 million after the impact of the change in the future UK tax rates, exceptional items and certain re-measurements.

As at the reporting date, legislation has been substantively enacted that the standard rate of corporation tax in the UK will reduce from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Consequently the Group's significant deferred tax balances, which were previously provided at 20%, were re-measured at the future tax rate at which the Group believes the temporary differences will reverse and this has resulted in a net reduction in the deferred tax liability and a corresponding net deferred tax credit of £104 million being taken to the income statement.

3.3 Cash flow

3.3.1 Summary cash flow

In the year ended 31 December 2015, there was a decrease of £94 million in cash and cash equivalents compared with an increase in 2014 of £172 million.

Year ended 31 December	**2015 £m**	2014 £m
Cash generated from operations	**1,592**	1,525
Taxation:		
Corporation tax paid	**(24)**	-
Group relief received/(paid)	**14**	(19)
Net cash from operating activities	**1,582**	1,506

Summary cash flow continues

Net purchase of property, plant and equipment and other assets	**(627)**	(855)
Net increase in term deposits and group deposits	**(409)**	(170)
Net cash used in investing activities	**(1,036)**	(1,025)
Dividends paid	**(380)**	(445)
Proceeds from issuance of bonds, term notes and other financing	**1,172**	1,376
Repayment of bonds, facilities and other financing items	**(663)**	(647)
Increase in amount owed to Heathrow Finance plc	**48**	165
Settlement of accretion on index-linked swaps	**(213)**	(185)
Net interest paid	**(604)**	(573)
Net cash used in financing activities	**(640)**	(309)
Net (decrease)/increase in cash and cash equivalents	**(94)**	172
Cash generated from operations after capital expenditure and net interest paid	**361**	99

At 31 December 2015, the Group had £720 million of cash, cash equivalents and term deposits (2014: £436 million), of which cash and cash equivalents comprised £172 million (2014: £266 million).

The movement to a decrease in cash and cash equivalents principally reflects £200 million lower proceeds from funding activities and a £409 million increase in term deposits and group deposits, compared to a £170 million increase in 2014.

3.3.2 Cash flow from operating activities

In the year ended 31 December 2015, cash flow from operating activities increased 4.4% to £1,592 million (2014: £1,525 million). The following table reconciles EBITDA to cash flow from operating activities.

Year ended 31 December	**2015 £m**	2014 £m
EBITDA (before certain re-measurements and exceptional items)	**1,605**	1,559
Exceptional: Terminal 2 operational readiness	**-**	(18)
Decrease in receivables and inventories	**24**	13
Decrease in payables	**(20)**	(4)
Increase/(decrease) in provisions	**5**	(3)
Difference between pension charge and contributions	**(22)**	(22)
Cash flow from operating activities	**1,592**	1,525

3.3.3 Capital expenditure

In the year ended 31 December 2015, the cash impact of capital investment was £627 million (2014: £853 million) with gross additions to fixed assets of £586 million (2014: £725 million). The higher cash outflow compared to gross additions to fixed assets principally reflects the terms of supplier payments in relation to the completion of Terminal 2.

3.3.4 Restricted payments

The financing arrangements of the Group and Heathrow Finance restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital, any redemptions or repurchases of share capital, and payments of fees, interest or principal on any intercompany loans.

In the year ended 31 December 2015, net restricted payments of £398 million (gross: £523 million) were made by the Group (2014: £500 million). The restricted payments principally funded £218 million of the

£300 million in quarterly dividends paid to the Group's ultimate shareholders (2014: £261 million), £33 million of interest payments at ADI Finance 2 Limited (2014: £33 million), £65 million of interest on the debenture between Heathrow (SP) and Heathrow Finance plc (2014: £55 million) and repayment of a £78 million loan at Heathrow Finance plc.

3.4 Pension scheme

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

At 31 December 2015, the defined benefit pension scheme, as measured under IAS 19, had a surplus of £104 million (2014: £199 million deficit). The movement is principally due to a one-off reduction of £236 million as a result of the introduction of a 2% annual cap on future increases in pensionable pay. The remaining movement mainly reflects the scheme's receipt of a £50 million commutation payment following the sale of the HAH Group's non-Heathrow airports at the end of 2014 and contributions to pay down the scheme deficit.

3.5 Recent financing activity

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

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

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

Also in 2015, £100 million was raised at Heathrow Finance, comprising £50 million from a 10 year loan facility drawn in July 2015 and a £50 million loan facility to 2020, agreed in September to be drawn in March 2016.

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

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

Since the start of 2016, Heathrow has consolidated its presence in the Swiss franc bond market, raising CHF400 million in an 8 year public bond with a fixed rate coupon of 0.5%. Heathrow Finance has also entered into £125 million of 7-10 year term loans which are expected to be drawn in early 2017.

3.6 Financing position

3.6.1 Debt and liquidity at Heathrow (SP) Limited

The Group's nominal net debt increased 0.8% from £11,653 million at 31 December 2014 to £11,745 million at 31 December 2015 and comprised £11,825 million in bonds, £387 million in term notes and loans, £253 million in index-linked derivative accretion offset by £720 million cash at bank and term deposits. Nominal net debt comprised £10,075 million in senior net debt and £1,670 million in junior debt.

The average cost of the Group's nominal gross debt at 31 December 2015 was 4.40% (2014: 4.59%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2015 was 4.84% (2014: 5.70%). The reduction in the average cost of debt since the end of 2014 is mainly due to the lower cost of debt raised in 2015 and lower inflation at 31 December 2015.

Nominal debt excludes any restricted cash and the debenture between Heathrow (SP) and Heathrow Finance. It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

The accounting value of the Group's net debt was £11,114 million at 31 December 2015 (2014: £11,064 million). This includes £172 million of cash and cash equivalents and £550 million of term deposits, as reflected in the statement of financial position, and excludes accrued interest.

Heathrow expects to have sufficient liquidity to meet all its obligations in full up to January 2018. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast takes into account £2.2 billion in undrawn loan facilities and cash resources at 31 December 2015, funds raised from the recent Swiss franc bond, £240 million in committed term debt financing to be drawn after 31 December 2015 and the expected operating cash flow over the period.

3.6.2 Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance was £12,670 million at 31 December 2015, an increase of 0.9% since the end of 2014 (31 December 2014: £12,560 million). This comprises the Group's nominal net debt of £11,745 million, Heathrow Finance's gross debt of £931 million and cash held at Heathrow Finance of £6 million.

3.6.3 Net finance costs and net interest paid

In the year ended 31 December 2015, the Group's net finance costs before certain re-measurements were £700 million (2014: £804 million) and net interest paid was £604 million (2014: £573 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Year ended 31 December	**2015 £m**	2014 £m
Net finance costs before certain re-measurements and exceptional items	**700**	804
Amortisation of financing fees and other items	**(15)**	(49)
Amortisation on bond redemption	**-**	(62)
Borrowing costs capitalised	**22**	89
Underlying net finance costs	**707**	782
Non-cash accretion on index-linked instruments	**(74)**	(159)
Other movements	**(29)**	(50)
Net interest paid	**604**	573

Underlying net finance costs were £707 million (2014: £782 million) after adjusting for capitalised borrowing costs of £22 million (2014: £89 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £15 million (2014: £111 million). The reduced underlying net finance costs mainly reflect lower index-linked accretion due to low inflation.

Net interest paid in the period was £604 million (2014: £573 million) of which £539 million (2014: £518 million) related to external debt. The remaining £65 million (2014: £55 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

3.6.4 Financial ratios

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

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

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

In the year ended 31 December 2015, the Group's senior and junior interest cover ratios (the ratio of cash flow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.90x and 2.36x respectively (2014: 2.94x and 2.40x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.12x (2014: 2.20x) compared to a covenant level of 1.00x under its financing agreements.

The interest cover ratios for 2014 have been re-presented to be consistent with the approach adopted in 2015 to treat restructuring costs as ordinary items rather than exceptional items. This has resulted in minor differences to the senior, junior and Heathrow Finance interest cover ratios for 2014, which remain significantly above the respective trigger and covenant levels. For reference the previously reported ratios were 2.98x, 2.43x and 2.23x respectively.

3.7 Outlook

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

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement for the year ended 31 December 2015

		Audited Year ended 31 December 2015			Re-presented[a] Audited Year ended 31 December 2014		
	Note	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items[b] £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items[b] £m	Total £m
Continuing operations							
Revenue	1	**2,765**	**-**	**2,765**	2,692	-	2,692
Operating costs	2	**(1,842)**	**236**	**(1,606)**	(1,705)	(194)	(1,899)
Other operating items							
Fair value gain on investment properties			**95**	**95**		46	46
Operating profit		**923**	**331**	**1,254**	987	(148)	839
Financing							
Finance income		**252**		**252**	234		234
Finance costs		**(952)**		**(952)**	(1,038)		(1,038)
Fair value gain/(loss) on financial instruments			**148**	**148**		(154)	(154)
Net finance costs	4	**(700)**	**148**	**(552)**	(804)	(154)	(958)
Profit/(loss) before tax		**223**	**479**	**702**	183	(302)	(119)
Tax (charge)/credit before change in tax rate		**(54)**	**(88)**	**(142)**	(32)	53	21
Change in tax rate		**-**	**104**	**104**	-	-	-
Taxation	5	**(54)**	**16**	**(38)**	(32)	53	21
Profit/(loss) for the year from continuing operations		**169**	**495**	**664**	151	(249)	(98)
Profit from discontinued operations		**-**	**-**	**-**	3	-	3
Profit/(loss) for the year		**169**	**495**	**664**	154	(249)	(95)

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

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

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Heathrow (SP) Limited

Consolidated statement of comprehensive income for the year ended 31 December 2015

	Audited Year ended 31 December 2015 £m	Audited Year ended 31 December 2014 £m
Profit/(loss) for the year	**664**	(95)
Items that will not be subsequently reclassified to the consolidated income statement:		
Tax relating to retirement benefits[a]	**(10)**	(4)
Tax relating to indexation of operating land	**-**	1
Change in tax rate	**7**	-
Actuarial loss on pensions	**(3)**	-
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges:		
Loss taken to equity	**(129)**	(174)
Transferred to income statement	**175**	163
Change in tax rate	**(9)**	
Other comprehensive income/(loss) for the year net of tax	**31**	(14)
Total comprehensive income/(loss) for the year[b]	**695**	(109)

[a] Relates to a £50 million commutation payment for which the group receives no tax relief.
[b] Attributable to owners of the parent.

Heathrow (SP) Limited

Consolidated statement of financial position as at 31 December 2015

	Note	**Audited 31 December 2015 £m**	Audited[1] 31 December 2014 £m
Assets			
Non-current assets			
Property, plant and equipment		**11,248**	11,349
Investment properties		**2,156**	2,054
Intangible assets		**133**	114
Retirement benefit surplus		**104**	-
Derivative financial instruments		**175**	172
Trade and other receivables		**23**	23
		13,839	13,712
Current assets			
Inventories		**11**	10
Trade and other receivables		**253**	290
Current income tax assets		**-**	18
Derivative financial instruments		**-**	2
Term deposits		**550**	170
Cash and cash equivalents		**172**	268
		986	758
Total assets		**14,825**	14,470
Liabilities			
Non-current liabilities			
Borrowings	*6*	**(12,212)**	(11,877)
Derivative financial instruments		**(1,100)**	(1,328)
Deferred income tax liabilities		**(1,016)**	(1,023)
Retirement benefit obligation		**(28)**	-
Provisions		**(2)**	(10)
Trade and other payables		**(11)**	(2)
		(14,369)	(14,240)
Current liabilities			
Borrowings	*6*	**(993)**	(933)
Derivative financial instruments		**(90)**	(1)
Provisions		**(5)**	(232)
Current income tax liabilities		**(31)**	-
Trade and other payables		**(412)**	(454)
		(1,531)	(1,620)
Total liabilities		**(15,900)**	(15,860)
Net liabilities		**(1,075)**	(1,390)
Equity			
Capital and reserves			
Share capital		**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Cash flow hedge reserve		**(284)**	(321)
Retained earnings		**2,457**	2,179
Total shareholder's equity		**(1,075)**	(1,390)

[1] The presentation for 31 December 2014 has been changed to disclose Term deposits of £170 million as a separate line item. These were previously held within Current assets – Trade and other receivables.

Heathrow (SP) Limited

Consolidated statement of changes in equity
for the year ended 31 December 2015

	Attributable to owners of the Company (Audited)					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
1 January 2014	11	499	(3,758)	(310)	2,722	(836)
Comprehensive income:						
Loss for the year					(95)	(95)
Other comprehensive income:						
Fair value losses on cash flow hedges net of tax				(11)		(11)
Tax relating to retirement benefits					(4)	(4)
Tax relating to indexation of operating land					1	1
Total comprehensive loss				(11)	(98)	(109)
Transaction with owners:						
Dividends paid					(445)	(445)
Total transaction with owners					(445)	(445)
31 December 2014	**11**	**499**	**(3,758)**	**(321)**	**2,179**	**(1,390)**
Comprehensive income:						
Profit for the year					**664**	**664**
Other comprehensive income:						
Fair value gains on cash flow hedges net of tax				**37**	**-**	**37**
Tax relating to retirement benefits					**(10)**	**(10)**
Actuarial loss on pensions					**(3)**	**(3)**
Change in tax rate				**-**	**7**	**7**
Total comprehensive income				**37**	**658**	**695**
Transaction with owners:						
Dividends paid					**(380)**	**(380)**
Total transaction with owners					**(380)**	**(380)**
31 December 2015	**11**	**499**	**(3,758)**	**(284)**	**2,457**	**(1,075)**

Heathrow (SP) Limited

Consolidated statement of cash flows for the year ended 31 December 2015

	Note	Audited Year ended 31 December 2015 £m	Audited Year ended 31 December 2014 £m
Cash flows from operating activities			
Cash generated from operations	*7*	**1,592**	1,525
Taxation:			
Corporation tax paid		**(24)**	-
Group relief received/(paid)		**14**	(19)
Net cash from operating activities		**1,582**	1,506
Cash flows from investing activities			
Net capital expenditure		**(627)**	(853)
Increase in term deposits[1]		**(380)**	(170)
Increase in group deposits[2]		**(29)**	-
Disposal of Stansted Airport Limited		**-**	(2)
Net cash used in investing activities		**(1,036)**	(1,025)
Cash flows from financing activities			
Dividends paid		**(380)**	(445)
Proceeds from issuance of bonds		**1,022**	1,276
Repayment of bonds		**(619)**	(513)
Issuance of term notes		**150**	100
Repayment of revolving credit facilities		**-**	(80)
Repayment of facilities and other items		**(44)**	(54)
Increase in amount owed to Heathrow Finance plc		**48**	165
Settlement of accretion on index-linked swaps		**(213)**	(185)
Net interest paid		**(604)**	(573)
Net cash used in financing activities		**(640)**	(309)
Net (decrease)/increase in cash and cash equivalents		**(94)**	172
Cash and cash equivalents at beginning of year		**266**	94
Cash and cash equivalents at end of year		**172**	266
Represented by:			
Cash and cash equivalents		**172**	268
Overdrafts		-	(2)
Cash and cash equivalents at end of year		**172**	266

[1] Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.
[2] Group deposits are amounts settled with LHR Airports Limited during the year under the terms of the SSA.

Heathrow (SP) Limited

General information and accounting policies for the year ended 31 December 2015

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2015 or 31 December 2014. Statutory financial statements for the year ended 31 December 2014 have been filed with the registrar of Companies on 20 March 2015. The annual financial information presented herein for the year ended 31 December 2015 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2015. The auditors' report on the 2015 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

The consolidated financial statements of Heathrow (SP) Limited have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU') and prepared under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historical cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006. The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2015.

Pension accounting

From 1 January 2015, the Group has changed the method of accounting for retirement benefit schemes. Before 31 December 2014, the Group recorded its share of the liability on the Heathrow Airport Holdings Limited group's (the 'HAH Group') defined benefit schemes ('the schemes'). This was recognised as a provision payable to the legal sponsor of the schemes, being LHR Airports Limited. Additionally, the Group recorded its share of the actuarial gains and losses on the schemes and presented this within exceptional items in the income statement.

Following the disposal of Aberdeen, Glasgow and Southampton airports by the HAH Group in December 2014, the directors have reassessed the Group's relationship with the legal sponsor of the schemes given that the HAH Group's sole operating business is now Heathrow. The directors have determined, after taking into account the Shared Service Agreement, employment relationships and the funding risk associated with the schemes, that the Group now acts as principal in relation to these schemes. As a result, the Group now recognises an external asset or liability, in relation to the schemes, on its statement of financial position as non-current under the caption of Retirement benefit surplus or Retirement benefit obligation and no longer records an intercompany provision to LHR Airports Limited. Additionally, it is now considered appropriate for the Group to record actuarial gains and losses on the external scheme within other comprehensive income. This differs from the prior periods where the Group recorded a share of the actuarial gains and losses, as an exceptional item in the Group's income statement. There is no impact on cash or net assets as a result of this change.

During the period, the Company agreed changes to the HAH Group's defined benefit pension scheme effective from 1 October 2015. The changes include the introduction of an annual cap of 2% on future increases to pensionable pay for active members. The changes result in a one-off reduction of £236 million in the scheme's liabilities, as measured under IAS19, and is classified as an exceptional item in the income statement. There is no immediate cash flow impact as a result of these changes. As noted in the basis of preparation, from 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the defined benefit pension scheme and no longer reports these as an exceptional item in the income statement.

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Notes to the consolidated financial information for the year ended 31 December 2015

1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the relevant Board for allocating resources and assessing performance. These segments relate to the operations of Heathrow and Heathrow Express.

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

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

Table (a) details total revenue from external customers for the year ended 31 December 2015 and is broken down into aeronautical, retail, ORCs and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA and a reconciliation to the consolidated profit for the period.

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

Table (a)	**Segment revenue**					
Year ended 31 December 2015	**Aero-nautical £m**	**Retail £m**	**ORCs £m**	**Other £m**	**Total external revenue £m**	**EBITDA £m**
Heathrow	**1,699**	**568**	**239**	**127**	**2,633**	**1,525**
Heathrow Express				**132**	**132**	**80**
Continuing operations	**1,699**	**568**	**239**	**259**	**2,765**	**1,605**

Reconciliation to statutory information:

Unallocated income and expense	
Depreciation and amortisation (table (d))	**(682)**
Operating profit (before certain re-measurements and exceptional items)	**923**
Exceptional items	**236**
Fair value gain on investment properties (certain re-measurements)	**95**
Operating profit	**1,254**
Finance income	**252**
Finance costs	**(952)**
Fair value gain on financial instruments (certain re-measurements)	**148**
Profit before tax	**702**
Taxation before certain re-measurements and exceptional items	**(54)**
Taxation (certain re-measurements and exceptional items)	**16**
Taxation	**(38)**
Profit for the year	**664**

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Notes to the consolidated financial information for the year ended 31 December 2015

1 Segment information *continued*

Table (b)	Segment revenue					
Year ended 31 December 2014	Aero-nautical £m	Retail £m	ORCs £m	Other[1] £m	Total external revenue £m	EBITDA £m
Heathrow	1,683	524	232	124	2,563	1,485
Heathrow Express				129	129	74
Continuing operations	1,683	524	232	253	2,692	1,559

Reconciliation to statutory information:

Unallocated income and expense	
Depreciation and amortisation (table (d))	(572)
Operating profit (before certain re-measurements and exceptional items)	987
Exceptional items	(194)
Fair value gain on investment properties (certain re-measurements)	46
Operating profit	839
Finance income	234
Finance costs	(1,038)
Fair value gain on financial instruments (certain re-measurements)	(154)
Loss before tax	(119)
Taxation before certain re-measurements and exceptional items	(32)
Taxation (certain re-measurements and exceptional items)	53
Taxation	21
Loss for the year – continuing operations	(98)
Profit from discontinued operations	3
Consolidated loss for the year	(95)

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2015

2 Operating costs – ordinary

	Audited Year ended 31 December 2015 £m	Audited Year ended 31 December 2014 £m
Employment	**384**	390
Operational	**242**	260
Maintenance	**187**	174
Business rates	**123**	114
Utilities	**92**	94
Other	**132**	101
Total adjusted operating costs	**1,160**	1,133
Depreciation and amortisation	**682**	572
Operating costs before exceptional items	**1,842**	1,705
Exceptional items (Note 3)	**(236)**	194
Total operating costs	**1,606**	1,899

3 Exceptional items

	Audited Year ended 31 December 2015 £m	Audited Year ended 31 December 2014 £m
Pension credit: change to terms	**(236)**	-
Pension charge: actuarial losses	**-**	176
Terminal 2 operational readiness	**-**	18
Total operating exceptional items	**(236)**	194

Operating costs – exceptional

During the year, the Company agreed changes to the defined benefit pension scheme effective from 1 October 2015. The changes include the introduction of an annual cap of 2% on future increases to pensionable pay for active members which has resulted in a one-off reduction of £236 million in the scheme's liabilities, as measured under IAS19, and is classified as an exceptional item in the income statement. There is no immediate cash flow impact as a result of these changes.

From 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the Group's defined benefit pension scheme. The net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement, as explained in the basis of preparation.

Previously, movements in the Group's share of pension obligations were recorded as exceptional items. For the year ended 31 December 2014 a non-cash pension charge of £176 million was recorded.

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

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2015

4 Financing

	Audited Year ended 31 December 2015 £m	Audited Year ended 31 December 2014 £m
Finance income		
Interest receivable on derivatives not in hedge relationship	**247**	231
Interest on deposits	**5**	3
	252	234
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(583)**	(592)
Bank loans and overdrafts and related hedging instruments	**(50)**	(75)
Amortisation on bond redemption[2]	**-**	(62)
Interest payable on derivatives not in hedge relationship[3]	**(259)**	(323)
Facility fees and other charges	**(7)**	(14)
Net pension finance costs	**(4)**	(3)
Interest on debenture payable to Heathrow Finance plc	**(70)**	(57)
Unwinding of discount on provisions	**(1)**	(1)
	(974)	(1,127)
Less: capitalised borrowing costs[4]	**22**	89
	(952)	(1,038)
Net finance costs before certain re-measurements	**(700)**	(804)
Fair value gain/(loss) on financial instruments		
Interest rate swaps: ineffective portion of cash flow hedges	**(1)**	3
Interest rate swaps: not in hedge relationship	**35**	(196)
Index-linked swaps: not in hedge relationship[5]	**87**	26
Cross-currency swaps: ineffective portion of cash flow hedges	**(10)**	9
Cross-currency swaps: ineffective portion of fair value hedges	**37**	3
Fair value re-measurements of foreign exchange contracts and currency balances	**-**	1
	148	(154)
Net finance costs	**(552)**	(958)

1 Includes accretion of £9 million (2014: £20 million) on index-linked bonds.

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

3 Includes accretion of £65 million (2014: £139 million) on index-linked swaps.

4 Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.20% (2014: 5.87%) to expenditure incurred on such assets.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2015

5 Taxation

	Audited Year ended 31 December 2015			Audited Year ended 31 December 2014		
	Before certain re-measurements and exceptional items	**Certain re-measurements and exceptional items**	**Total**	Before certain re-measurements and exceptional items	Certain re-measurements and exceptional items	Total
	£m	**£m**	**£m**	£m	£m	£m
UK corporation tax						
Current tax (charge)/credit at 20.25% (2014: 21.5%)	**(55)**	**-**	**(55)**	5	4	9
(Under)/over provision in respect of prior years	**(4)**	**-**	**(4)**	4	-	4
Deferred tax						
Current year (charge)/credit	**1**	**(88)**	**(87)**	(37)	49	12
Prior year credit/(charge)	**4**	**-**	**4**	(4)	-	(4)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**-**	**104**	**104**	-	-	-
Taxation (charge)/credit for the year	**(54)**	**16**	**(38)**	(32)	53	21

The tax (charge)/credit on the Group's profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the Group:

	Audited Year ended 31 December 2015 £m	Audited Year ended 31 December 2014 £m
Profit before tax (before certain re-measurements and exceptional items)	**223**	183
Reconciliation of the tax (charge)/credit		
Tax calculated at the UK statutory rate of 20.25% (2014: 21.5%)	**(45)**	(39)
Adjustments in respect of current income tax of previous years	**(4)**	4
Net (non-deductible expenses)/non-taxable income[1]	**(9)**	7
Adjustments in respect of deferred income tax of previous years	**4**	(4)
Total tax charge before certain re-measurements and exceptional items excluding change in UK corporation tax rate	**(54)**	(32)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**104**	-
Tax (charge)/credit on certain re-measurements and exceptional items	**(88)**	53
Taxation (charge)/credit for the year	**(38)**	21

1 For the year ended 31 December 2014, the non-taxable income includes amounts associated with the disposal of group operations and the release of a provision.

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will reduce from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Consequently the Group's deferred tax balances, which were previously provided at 20%, were re-measured at the future tax rate at which the Group believes the temporary differences will reverse and this has resulted in a net reduction in the deferred tax liability and a corresponding net deferred tax credit of £104 million being taken to the income statement.

Excluding the impact of the change in tax rate, and adjusting for certain re-measurements and exceptional items, the tax charge recognised for the year on ordinary activities of £54 million (2014: £32 million) results in an effective tax rate of 24.2% (2014: 17.5%) compared to the UK statutory rate of 20.25% (2014: 21.5%). The higher effective tax rate in 2015 reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. In 2014, the impact of non-qualifying capital expenditure is offset by non-taxable income associated with the disposal of group operations and the release of a provision, which results in a lower effective tax rate.

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

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

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2015

6 Borrowings

	Audited 31 December 2015 £m	Audited 31 December 2014 £m
Current borrowings		
Secured		
Loans	**39**	39
Bonds:		
3.000% £300 million due 2015	**-**	300
2.500% US$500 million due 2015	**-**	320
12.450% £300 million due 2016	**303**	-
4.125% €500 million due 2016	**366**	-
	708	659
Unsecured		
Bank overdrafts	**-**	2
Total current (excluding interest payable)	**708**	661
Interest payable – external	**259**	251
Interest payable – owed to group undertakings	**26**	21
Total current	**993**	933
Non-current borrowings		
Secured		
Bonds:		
12.450% £300 million due 2016	**-**	318
4.125% €500 million due 2016	**-**	381
4.375% €700 million due 2017	**516**	542
2.500% CHF400 million due 2017	**271**	257
4.600% €750 million due 2018	**527**	545
6.250% £400 million due 2018	**398**	398
4.000% C$400 million due 2019	**195**	219
6.000% £400 million due 2020	**397**	397
9.200% £250 million due 2021	**271**	275
3.000% C$450 million due 2021	**225**	248
4.875% US$1,000 million due 2021	**703**	670
1.650%+RPI £180 million due 2022	**195**	193
1.875% €600 million due 2022	**453**	485
5.225% £750 million due 2023	**659**	649
7.125% £600 million due 2024	**590**	589
3.250% C$500 million due 2025	**248**	-
4.221% £155 million due 2026	**155**	155
6.750% £700 million due 2026	**691**	691
2.650% NOK1,000 million due 2027	**77**	-
7.075% £200 million due 2028	**198**	198
1.500% €750 million due 2030	**504**	-
6.450% £900 million due 2031	**854**	855
Zero-coupon €50 million due January 2032	**43**	44
1.366%+RPI £75 million due 2032	**77**	76
Zero-coupon €50 million due April 2032	**43**	44
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**39**	39
1.061%+RPI £115 million due 2036	**115**	-
1.382%+RPI £50 million due 2039	**51**	51
3.334%+RPI £460 million due 2039	**576**	575
1.238%+RPI £100 million due 2040	**101**	100
5.875% £750 million due 2041	**741**	743
4.625% £750 million due 2046	**741**	742
1.372%+RPI £75 million due 2049	**77**	76
	10,781	10,605

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2015

6 Borrowings *continued*

	Audited 31 December 2015 £m	Audited 31 December 2014 £m
Secured *continued*		
Other loans	**98**	136
Term note: 3.770% £100 million due 2026	**100**	100
Term note: 2.630% £80 million due 2030	**79**	-
Term note: 2.970% £70 million due 2035	**70**	-
Unsecured		
Debenture payable to Heathrow Finance plc	**1,084**	1,036
Total loans	**1,431**	1,272
Total non-current	**12,212**	11,877
Total borrowings (excluding interest payable)	**12,920**	12,538

7 Cash generated from operations

	Audited Year ended 31 December 2015 £m	Audited Year ended 31 December 2014 £m
Operating activities		
Profit/(loss) before tax	**702**	(119)
Adjustments for:		
Net finance costs	**552**	958
Depreciation and amortisation	**682**	572
Fair value gains on investment properties	**(95)**	(46)
Working capital changes:		
Decrease in inventories and trade and other receivables	**24**	13
Decrease in trade and other payables	**(20)**	(4)
Release and utilisation of provisions	**5**	(3)
Difference between pension charge and cash contributions	**(22)**	(22)
Exceptional pension credit: change to terms	**(236)**	-
Exceptional pension charge	**-**	176
Cash generated from operations	**1,592**	1,525

Appendix 2 Presentation of revenue and operating costs

Old presentation format	Q1 2013	H1 2013	9M 2013	FY 2013	Q1 2014	H1 2014	9M 2014	FY 2014	Q1 2015	H1 2015	9M 2015	FY 2015
Aeronautical income	301	693	1,130	1,523	356	767	1,261	1,706	389	817	1,299	1,729
Retail income	107	229	361	491	109	237	371	503	116	247	393	537
Other income	112	227	345	460	111	230	354	483	117	243	376	499
Revenue	**520**	**1,149**	**1,836**	**2,474**	**576**	**1,234**	**1,986**	**2,692**	**622**	**1,307**	**2,068**	**2,765**

Per passenger unit measures (£)												
Aeronautical revenue	18.81	20.15	20.62	21.07	22.25	21.85	22.64	23.24	23.72	23.01	22.83	22.57
Gross retail income	6.69	6.66	6.59	6.79	6.81	6.75	6.66	6.85	7.07	6.96	6.91	7.17
Net retail income	6.31	6.28	6.24	6.43	6.44	6.41	6.34	6.53	6.77	6.68	6.66	6.95

Retail income (£m)												
Car parking	21	43	66	91	23	48	73	99	25	52	80	107
Duty and tax-free	27	58	91	126	27	59	94	128	27	60	93	128
Airside specialist shops	21	45	70	96	21	45	68	93	22	47	75	101
Bureaux de change	11	22	35	45	8	20	32	44	11	23	37	53
Catering	9	19	29	39	9	19	29	40	10	21	34	45
Other retail income	18	42	70	94	21	46	75	99	21	44	74	103
Total	**107**	**229**	**361**	**491**	**109**	**237**	**371**	**503**	**116**	**247**	**393**	**537**

Operating costs (£m)												
Employment costs	(103)	(202)	(294)	(392)	(93)	(189)	(286)	(399)	(96)	(194)	(295)	(385)
Maintenance expenditure	(42)	(79)	(123)	(164)	(40)	(84)	(128)	(178)	(44)	(86)	(140)	(200)
Utility costs	(25)	(45)	(66)	(85)	(23)	(46)	(70)	(95)	(26)	(51)	(69)	(92)
Rents and rates	(33)	(64)	(95)	(116)	(31)	(63)	(98)	(132)	(33)	(68)	(104)	(137)
General expenses	(69)	(137)	(197)	(270)	(64)	(136)	(214)	(305)	(76)	(150)	(226)	(330)
Retail expenditure	(6)	(13)	(19)	(26)	(6)	(12)	(18)	(24)	(5)	(10)	(14)	(16)
Disposal of fixed assets	-	1	1	-	-	-	-	-	-	-	-	-
Total	**(278)**	**(539)**	**(793)**	**(1,053)**	**(257)**	**(530)**	**(814)**	**(1,133)**	**(280)**	**(559)**	**(848)**	**(1,160)**

New presentation format (pro forma historical data)	Q1 2013	H1 2013	9M 2013	FY 2013	Q1 2014	H1 2014	9M 2014	FY 2014	Q1 2015	H1 2015	9M 2015	FY 2015
Aeronautical	297	685	1,119	1,507	352	757	1,244	1,683	382	803	1,277	1,699
Retail	111	235	369	498	112	246	385	524	123	260	414	568
Other	112	229	348	469	112	231	357	485	117	244	377	498
Revenue	**520**	**1,149**	**1,836**	**2,474**	**576**	**1,234**	**1,986**	**2,692**	**622**	**1,307**	**2,068**	**2,765**

Per passenger unit measures (£)												
Aeronautical revenue	18.62	19.91	20.40	20.83	21.95	21.59	22.35	22.94	23.35	22.61	22.44	22.67
Retail revenue	6.96	6.83	6.73	6.88	6.98	7.02	6.92	7.14	7.52	7.32	7.27	7.58

Retail (£m)												
Duty and tax-free	27	58	91	126	27	59	94	128	27	60	93	128
Airside specialist shops	21	45	70	96	21	45	68	94	22	47	75	100
Bureaux de change	11	22	35	45	8	20	32	44	11	23	37	53
Catering	9	20	30	40	9	19	29	40	10	21	34	45
Other retail income	15	31	50	62	15	32	50	67	16	32	55	75
Car parking	21	43	66	91	23	48	73	99	25	52	80	107
Other services	7	16	27	38	9	23	39	52	12	25	40	60
Total	**111**	**235**	**369**	**498**	**112**	**246**	**385**	**524**	**123**	**260**	**414**	**568**

Operating costs (£m)												
Employment	(103)	(202)	(294)	(392)	(90)	(184)	(279)	(390)	(93)	(187)	(289)	(384)
Operational	(58)	(123)	(180)	(248)	(61)	(127)	(191)	(260)	(62)	(123)	(181)	(242)
Maintenance	(40)	(71)	(110)	(148)	(39)	(79)	(124)	(174)	(43)	(84)	(135)	(187)
Business rates	(28)	(55)	(82)	(101)	(27)	(55)	(84)	(114)	(29)	(60)	(92)	(123)
Utilities	(25)	(45)	(67)	(86)	(23)	(46)	(70)	(94)	(26)	(51)	(69)	(92)
Other	(24)	(43)	(60)	(78)	(17)	(39)	(66)	(101)	(27)	(54)	(82)	(132)
Total	**(278)**	**(539)**	**(793)**	**(1,053)**	**(257)**	**(530)**	**(814)**	**(1,133)**	**(280)**	**(559)**	**(848)**	**(1,160)**