

Heathrow Airport Holdings Limited
Annual report and financial statements
for the year ended 31 December 2015

Heathrow Airport Holdings Limited

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Heathrow Airport Holdings Limited

Officers and professional advisers

Directors

Sir Anthony Nigel Rudd (Chairman)

Akbar Abbas Al Baker

Stuart Baldwin

Christopher Beale

David Begg

Ali Bouzarif

Olivier Fortin

Jorge Gil

John Holland-Kaye

Rachel Lomax

Ernesto López

Fidel López

Michael Powell

Michael Uzielli

Yan Wang

Richard Agutter (Alternate to Akbar Abbas Al Baker)

Paul Barr (Alternate to Stuart Baldwin)

Juan Carlos Bullón (Alternate to Fidel López)

Samuel Coxe (Alternate to Christopher Beale)

Ignacio Aitor García (Alternate to Ernesto López)

Robert Horsnall (Alternate to Michael Powell)

Deven Karnik (Alternate to Ali Bouzarif)

Eric Lachance (Alternate to Olivier Fortin)

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Heathrow Airport Holdings Limited

Strategic report

Heathrow Airport Holdings Limited ('Heathrow Airport Holdings' or the 'Company') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service. Heathrow Airport Holdings Limited group (the 'Group') is an indirect subsidiary of the FGP Topco Limited group.

On 1 September 2015, the beneficial ownership of the Heathrow Express rail business transferred from Heathrow Airport Limited to Heathrow Express Operating Company Limited as a separate train operating company on an arm's length basis. This change of beneficial ownership had no impact on the results of the Group.

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

This Strategic report is presented in five sections:

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

Management review – overview of the year ended 31 December 2015, along with the key factors likely to impact the Group in 2016;

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2015 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered;

Leadership and governance – description of the Board of Directors (the 'Board') and Committees of the Board which provide overall leadership to the Group; and

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

Business overview

Our business model

Heathrow is one of the best connected hub airports in the world, with over 80 global airlines operating regular scheduled flights to almost 250 destinations. Heathrow is the primary airport in the world's largest aviation market – demand to fly to and from London is 15% higher than the next largest city. With 75.0 million passengers in 2015, Heathrow is Europe's busiest and the world's fifth busiest airport.

Heathrow has maintained a strong focus over recent years on operational performance, improving the passenger experience and investing in new and upgraded facilities. Heathrow has invested approximately £11 billion transforming the airport over the last decade. The focus and investment has resulted in Heathrow Airport being named "Best Airport in Western Europe" by Skytrax for the first time in 2015 becoming one of the top performing major European hub airports in terms of overall passenger satisfaction.

Heathrow provides service to a range of market segments, including business and leisure travellers, direct and transfer passengers on long and short-haul routes, operated by a diversified range of major airlines. Heathrow is subject to economic regulation by the Civil Aviation Authority, which sets caps on the amount that Heathrow can charge airlines for using its facilities. This price setting mechanism provides significant cash flow predictability within each regulatory period, with the current regulatory period ending December 2018. As well as earning income from services to airlines, Heathrow also generates revenue from a variety of sources, including concession fees from retail operators, income from car parks, advertising revenue, the rental of airport premises, the provision of facilities and services and the Heathrow Express rail service.

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. Our vision is to give passengers the best airport service in the world.

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

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Business overview *continued*

Our priorities

Heathrow aims to deliver the best airport service in the world and has four strategic priorities to help achieve the aim:

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, improving punctuality and resilience.

Beat the plan

Aiming to beat the business plan for the current regulatory period and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments efficiently.

Heathrow 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.

The CAA sets the maximum level of airport charges for Heathrow, generally for five-year regulatory periods. Heathrow's current regulatory period ('Q6') is from 1 April 2014 to 31 December 2018. Heathrow is regulated by means of a per passenger price cap mechanism known as RPI +/- X, which incorporates an allowed return on the Regulatory Asset Base ('RAB').

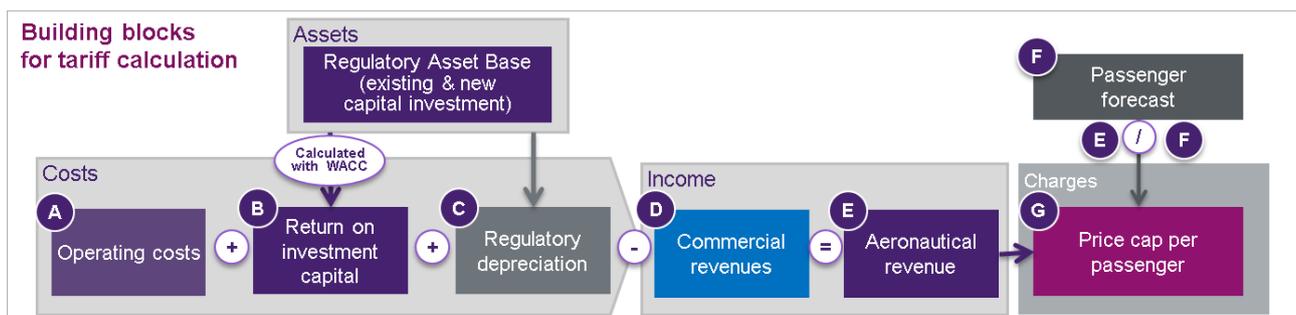
This is consistent with the economic regulation of other UK regulated industries (such as telecoms and the energy sector). This form of economic regulation is also sometimes referred to as incentive regulation, in that Heathrow has an incentive to outperform the price control by means of attracting more passengers, reducing operating costs or delivering higher commercial revenues than forecast. If the opposite is the case, then Heathrow has to absorb the cost or lower revenue. There is no adjustment for shortfalls in passenger numbers or additional costs (except where Heathrow incurs additional security costs, above an established threshold, when implementing new security directives imposed by the EU or the UK Government).

The Price Cap

The price cap for Heathrow is based on a RAB methodology using a "single till" building block approach. The single till takes into account revenue and costs from both aeronautical and non-aeronautical activities when setting the price caps for a regulatory period.

In setting the price cap, the CAA determines the regulated revenue requirement. This is calculated as the sum of forecast operating expenditure less other revenue plus the required return (using the cost of capital determined by the CAA) on the forecast RAB taking into account forecast capital expenditure, plus regulatory depreciation and plus or minus any profiling adjustment. The profiling adjustment is a mechanism used to smooth changes in charges that might otherwise occur as a result of major investments. The resulting aeronautical revenue requirement effectively amounts to the total income from airport charges.

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



Heathrow Airport Holdings Limited

Strategic report *continued*

Business overview *continued*

Our regulatory environment *continued*

The Price Cap continued

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

In setting the price cap the CAA takes its own view of the scope for future efficiency savings, the appropriate level of capital expenditure and the rate of growth in demand for airport services.

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. Therefore, Heathrow can choose to price charges below the cap. For example, if there is unused capacity, Heathrow could choose to set prices below the cap in order to stimulate demand.

The price cap takes certain elements into account in the maximum allowable yield. These include an adjustment for additional or reduced security costs as a result of new UK or European security directives; reductions where capital expenditure project milestones are not delivered; a 2017 business rates revaluation factor and a service quality rebate scheme. In addition there is a mechanism known as the “K factor” which is designed to correct for any under recovery (dilution) or over recovery (concentration) in airport charges compared to the annual maximum allowable yield per passenger. Under or over recoveries generally arise due to changes in traffic mix or average loads compared to those forecast at the time prices were prospectively set for the relevant year.

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, including passenger fees, landing charges and aircraft parking charges, and non-aeronautical income from a variety of sources, including concession fees from retail operators, direct income from car parks and advertising and income from other services supplied by Heathrow.

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.
- Two levels of charge based on route area: European (including domestic) and rest of world. Transfer and transit passengers benefit from a discount.

Landing charges

- Landing charges are levied for substantially all aircraft based on three key components; noise, emissions and air navigation services. Charges are higher during the night period and allow for supplemental charges where aircraft do not operate in accordance with airport prescribed noise preferential routes.

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; income from car parks, advertising revenue and VIP products; 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.

Heathrow Airport Holdings Limited

Strategic report *continued*

Business overview *continued*

Our regulatory environment *continued*

Infrastructure

The Group has invested £11 billion transforming Heathrow's infrastructure over the last decade, with close to £580 million invested in 2015.

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 2015 its runways operated at 98.3% (2014: 98.1%) of this limit.

Terminals

Each of Heathrow's four operational terminals is either new or recently refurbished. Terminal 2, which opened in June 2014, has the capacity to handle up to 20 million passengers per year and complements the award winning Terminal 5, which celebrated its seventh birthday in 2015, and handled 33 million passengers in 2015. Terminal 1 operations were discontinued in June 2015.

Heathrow Airport's terminal capacity is currently estimated to be 85 million passengers per year.

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 the Terminal 3 integrated baggage system started operating in March 2015 and is expected to 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.

Certain cargo sheds at the airport are owned by third parties who lease space to cargo service providers. Heathrow also provides cargo sheds and other accommodation and facilities which are leased, or separately billed on a use basis, to cargo-service providers.

Heathrow Airport Holdings Limited

Strategic report *continued*

Management review

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 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.

Heathrow Airport Holdings Limited

Strategic report *continued*

Management review continued

Passenger traffic

Heathrow's passenger traffic by geographic segment for the year ended 31 December 2015:

<i>Passengers by geographic segment (millions)</i>	Year ended 31 December 2015	Year ended 31 December 2014	Change ¹ %
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 passengers¹	75.0	73.4	2.2

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

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%).

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.

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 Airport Holdings Limited

Strategic report *continued*

Management review continued

Transforming customer service continued

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.

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.

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.

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 Airport Holdings Limited

Strategic report *continued*

Management review *continued*

Responsible Heathrow *continued*

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 has 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.

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.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review

Introduction

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

Basis of preparation of statutory results

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

The Group consolidated accounts are prepared under International Financial Reporting Standards ('IFRS').

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, the previously reported pre-exceptional Operating costs and EBITDA have been restated accordingly.

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 to introduce a 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 rent were previously reported under General Expenses. The Maintenance category now includes cleaning which was also reported under General Expenses. The residual General Expenses are now categorised as Other costs. The presentational change has been applied to prior year amounts. It is noted as re-presented as it does not change the total revenue or operating costs.

For the year ended 31 December 2015, there were no disposals of discontinued operations. Discontinued operations in 2014 mainly related to the disposal of the NDH1 Group. The NDH1 Group was sold on 18 December 2014 generating a profit of £200 million. A further £23 million gain related to the liquidation of a subsidiary and adjustments to other previous disposals. During the year ended 31 December 2015, the Group realised £5m from the release of surplus disposal provisions made in the previous year for costs associated NDH1 Group. As required under IFRS the results and performance of the NDH1 Group in 2014 was included in the results and cash flows of discontinued operations and was therefore reported separately in the Group's consolidated income statement and consolidated statement of cash flows.

Summary performance

In the year to 31 December 2015, the Group earned a £702 million profit after tax (2014: £308 million).

	Year ended 31 December 2015 £m	Re-presented ¹ Year ended 31 December 2014 £m
Continuing operations		
<i>Excluding exceptional items and certain re-measurements</i>		
Revenue	2,767	2,691
Operating costs before depreciation and amortisation	(1,159)	(1,132)
EBITDA²	1,608	1,559
Depreciation, amortisation and impairment	(689)	(586)
Operating profit	919	973
Net finance costs before certain re-measurements	(668)	(743)
Profit before tax	251	230
<i>Including exceptional items and certain re-measurements</i>		
Exceptional items	236	(18)
Fair value gain on investment properties	95	46
Fair value gain/(loss) on financial instruments	150	(153)
Taxation	(35)	(34)
Profit for the year from continuing operations	697	71
Discontinued operations		
Profit from discontinued operations ³	5	237
Consolidated profit for the year	702	308

¹ 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.

² EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items.

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Revenue

In the year ended 31 December 2015, revenue totalled £2,767 million (2014: £2,691 million).

	Year ended 31 December 2015	Re-presented ¹ Year ended 31 December 2014	Change
	£m	£m	%
Aeronautical	1,699	1,683	1.0
Retail	569	524	8.6
Other	499	484	2.9
Total revenue	2,767	2,691	2.8

¹ The presentation of revenue has been changed as described in the Basis of preparation of statutory results.

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.

Retail

In the year ended 31 December 2015, retail revenue increased 8.8% to £569 million (2014: £524 million). Retail revenue per passenger rose 6.2% to £7.58 (2014: £7.14).

	Year ended 31 December 2015	Year ended 31 December 2014	Change
	£m	£m	%
Duty and tax-free	128	128	0.0
Airside specialist shops	100	93	7.5
Bureaux de change	53	44	20.5
Catering	45	40	12.5
Other retail income	75	67	11.9
Car parking	108	100	8.0
Other services	60	52	15.4
Total retail revenue	569	524	8.6

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.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Revenue *continued*

Other

In the year ended 31 December 2015, other revenue increased 2.7% to £495 million (2014: £482 million).

	Year ended 31 December 2015	Year ended 31 December 2014	Change
	£m	£m	%
Other regulated charges	239	232	3.0
Heathrow Express	132	129	2.3
Property and other	124	121	2.5
Total other revenue	495	482	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'.

Operating costs

In the year ended 31 December 2015, operating costs excluding depreciation, amortisation and exceptional items increased 2.4% to £1,159 million (2014: £1,132 million).

	Year ended 31 December 2015	Re-presented ¹ Year ended 31 December 2014	Change
	£m	£m	%
Employment	399	392	1.8
Operational	243	259	(6.2)
Maintenance	187	174	7.5
Business rates	123	114	7.9
Utilities	93	103	(9.7)
Other	114	90	26.7
Total operating costs	1,159	1,132	2.4

¹ Operating cost categories and allocations have changed including prior year as noted in the basis of preparation.

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 the previous year.

Underlying performance reflects an ongoing focus on employment costs. 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.

Operating profit

For the year ended 31 December 2015, the Group recorded an operating profit after exceptional items but before certain re-measurements of £1,155 million (2014: £955 million).

	Year ended 31 December 2015	Year ended 31 December 2014	Change
	£m	£m	%
EBITDA ¹	1,608	1,559	3.1
Depreciation and amortisation	(689)	(586)	17.6
Exceptional items	236	(18)	n.m.
Operating profit before certain re-measurements	1,155	955	20.9

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

In the year ended 31 December 2015, EBITDA increased 3.1% to £1,608 million (2014: £1,559 million), resulting in an EBITDA margin of 58.1% (2014: 57.9%).

Depreciation increased substantially to £689 million (2014: £586 million) mainly reflecting the impact of Terminal 2, the new Terminal 3 baggage facility and accelerated depreciation of Terminal 1.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Exceptional items

In the year ended 31 December 2015, there was a net exceptional credit of £236 million (2014: £18 million charge) to the income statement.

	Year ended 31 December 2015	Re-presented ¹ Year ended 31 December 2014
	£m	£m
Pension: changes to terms	236	-
Terminal 2 operational readiness	-	(18)
Exceptional pre-tax credit/(charge)	236	(18)

¹ 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.

During the period, the Company agreed changes to the 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.

Operational readiness costs of £18 million in 2014 were 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.

Taxation

All Heathrow group companies operate not only within the UK's tax laws, but also within the spirit of them and do not structure transactions in a way which gives a tax result contrary to the intentions of Parliament. All Heathrow group company profits are subject to UK corporation tax.

The total tax charge recognised for the year ended 31 December 2015 was £35 million (2014: £34 million). Based on a profit before tax for the year of £732 million (2014: £105 million), this results in an effective tax rate of 4.8% (2014: 32.4%). Excluding the impact of the change in the future UK tax rates, and adjusting for certain re-measurements and exceptional items, the tax charge recognised for the year on ordinary activities of £46 million (2014: £51 million) results in an effective tax rate of 18.3% (2014: 22.2%).

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 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 £100 million being taken to the income statement, which reduces the effective tax rate.

Excluding the impact of the change in the future UK tax rates, adjustments in respect of previous years, and adjusting for certain re-measurements and exceptional items, the effective tax rate in 2015 is higher than the statutory rate. This is because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

As a business, Heathrow has high infrastructure costs and as there is a timing difference between the accounting depreciation of these assets (the asset cost is charged to the income statement over the useful life of the asset on a straight line basis, but is not deductible for tax purposes) and the tax relief available for capital expenditure (capital allowances, being tax reliefs provided in law, spread over a number of years), this generates significant deferred tax liabilities within the Heathrow Group, reflecting future tax payable once capital investment reduces.

Discontinued operations

Discontinued operations included the results of the NDH1 Group in 2014. The NDH1 Group was sold on 18 December 2014 generating a profit of £200 million. A further £23 million gain related to the liquidation of a subsidiary and adjustments to other previous disposals.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Summary cash flow

In the year ended 31 December 2015, the Group had £760 million of cash, cash equivalents and term deposits (2014: £503 million), of which cash and cash equivalents comprised £210 million (2014: £333 million).

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash generated from continuing operations	1,591	1,515
Taxation:		
Corporation tax paid	(24)	-
Group relief received ¹	2	-
Cash generated from discontinued operations	-	69
Net cash from operating activities	1,569	1,584
Purchase of property, plant and equipment and other assets	(627)	(856)
Increase in term deposits	(380)	(170)
Disposal proceeds, other cash movements and investing activities of discontinued operations ²	(56)	609
Net cash used in investing activities	(1,063)	(417)
Dividends paid	(331)	(1,098)
Movements in bonds	362	1,009
Net movement in other borrowings and other financing items	152	(131)
Cancellation and restructuring of derivatives	-	9
Settlement of accretion on index-linked swaps	(213)	(185)
Net interest paid	(597)	(564)
Financing activities of discontinued operations	-	(35)
Net cash used in financing activities	(627)	(995)
Net (decrease)/increase in cash and cash equivalents	(121)	172

¹ Received from the NDH1 group after its disposal in December 2014.

² Other cash movements of discontinued operations in 2015 mainly relates to a £50 million pension commutation payment and costs associated with the Group's disposal of the NDH1 Group, which was sold in December 2014.

The decrease in cash and cash equivalents principally reflects a £380 million increase in term deposits, compared to a £170 million increase in 2014 and £364 million lower proceeds from bond issuance and other funding activities.

Cash flow from operating activities of continuing operations

In the year ended 31 December 2015, cash flow from operating activities of continuing operations increased 5.0% to £1,591 million (2014: £1,515 million). The following table reconciles EBITDA to cash flow from operating activities.

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
EBITDA ¹	1,608	1,559
Exceptional: Terminal 2 operational readiness	-	(18)
Decrease in receivables and inventories	17	9
Decrease in payables	(7)	5
Decrease in provisions	(4)	(10)
Difference between pension charge and contributions	(23)	(30)
Cash flow from operating activities	1,591	1,515

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

Capital expenditure

In the year ended 31 December 2015, the cash impact of capital investment was £627 million (2014: £856 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.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Disposal proceeds

The Group completed the disposal of the NDH1 Group in December 2014 for £1,045 million. Net proceeds, after allowing for disposal costs, cash held by the NDH1 Group on the date of disposal, and pension payments were £988 million. Disposal proceeds were utilised to pay £670 million of dividends and £355 million to repay facilities and cancel derivatives held by the NDH1 Group.

Dividends

In the year ended 31 December 2015, dividends of £331 million were made by the Group which funded £300 million of quarterly dividends paid to shareholders and £31 million of interest payments at ADI Finance 2 Limited. (2014: £1,098 million comprising a £670 million one-off return on investment in the NHD1 Group, £270 million in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries).

Pension scheme

The 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 NDH1 Group at the end of 2014 and contributions to pay down the scheme deficit.

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 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.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

Net debt and liquidity

The Group's nominal net debt increased 1.0% from £12,522 million at 31 December 2014 to £12,646 million at 31 December 2015 and comprised £12,666 million at the Heathrow Finance plc group level and £20 million of net cash elsewhere in the Group. Nominal net debt consisted of £10,976 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 4.50% (2014: 4.71%). 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 4.91% (2014: 5.73%). 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 £12,268 million at 31 December 2015 (2014: £12,208 million). This includes £199 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.

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 £668 million (2014: £743 million) and net interest paid was £597 million (2014: £564 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	Year ended 31 December 2014 £m
Net finance costs before certain re-measurements	(668)	(743)
Amortisation of financing fees, discounts and fair value adjustments	(10)	18
Amortisation on bond redemption	-	62
Borrowing costs capitalised	(22)	(89)
Underlying net finance costs	(700)	(752)
Non-cash accretion of index-linked instruments	74	159
Release of cash flow hedge reserves	-	(24)
Other movements	29	53
Net interest paid	(597)	(564)

Underlying net finance costs were £700 million (2014: £752 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 £10 million (2014: £80 million). The reduced underlying net finance costs mainly reflect lower index-linked accretion due to low inflation.

Net interest paid is lower than underlying net finance costs primarily due to a £74 million (2014: £159 million) non-cash charge relating to accretion on index-linked instruments.

Heathrow Airport Holdings Limited

Strategic report *continued*

Financial review *continued*

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 2.88x and 2.34x 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 2.11x (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.

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%.

Leadership and governance

Board of Directors

The Board consists of the Chief Executive Officer, the Chief Financial Officer and Non-Executive Directors. Board Meetings are attended also by the Company Secretary. More than half of the board are Non-Executive Directors. The majority of the Non-Executive Directors are shareholder representatives. The remaining minority are independent Non-Executive Directors.

The Board determines the Group's long-term strategy, to ensure that the Group acts ethically and has the necessary resources to meet its objectives, to monitor performance and to ensure the Group meets its responsibilities as a leading airport company.

Board Committees

Audit Committee

The Audit Committee members include a chairman appointed by the Board of Directors and three shareholder Non-Executive Directors, who also attend the Board.

The Audit Committee is a sub-committee of the Board and its responsibilities include:

- considering the appointment of the external auditor, taking into account relevant ethical guidance and assessing the independence of the external auditor ensuring that key audit personnel are rotated at appropriate intervals (including overseeing the process for selecting the external auditor and making recommendations to the Board);
- recommending the audit fee to the Board for approval and pre-approving any fees in respect of non-audit services provided by the external auditor and ensuring that the provision of non-audit services does not impair the external auditors' independence or objectivity;
- discussing with the external auditor the nature and the scope of the audit and reviewing the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- reviewing reports on the effectiveness of systems for internal financial control, financial reporting and risk management;
- monitoring the integrity of the financial statements of the Group and reviewing, and challenging where necessary, the actions and judgements of management, in relation to the interim and annual financial statements and any press release related to those statements; and
- reviewing Internal Audit reports to the Audit Committee on the effectiveness of the Heathrow Airport Holdings Group's systems for internal control, financial reporting and risk management.

Nomination Committee

The Nomination Committee members include the Chairman of the Board, an independent Non-Executive Director and four shareholder Non-Executive Directors who attend the Board.

The Nomination Committee is a sub-committee of the Board and its responsibilities include:

- identifying and recommending for the consideration of the Board all new appointments of independent Non-Executive directors; and
- ensuring a formal, rigorous and transparent procedure is followed for the appointment of new independent Non-Executive directors to the Board.

Remuneration Committee

The Remuneration Committee members include a chairman appointed by the Board, three shareholder Non-Executive Directors who attend the Board and one independent Non-Executive Director.

The Remuneration Committee is a sub-committee of the Board and its responsibilities include approvals of:

- the remuneration policy of the members of the Executive Committee and Senior Managers;
- the compensation packages of the members of the Executive Committee (other than the Chief Executive Officer) including salary, bonus, pensions and other incentive compensation;
- the contractual terms for the members of the Executive Committee and independent Non-Executive Directors;
- the design and terms of bonus plans including approval of off-cycle bonus 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.

Heathrow Airport Holdings Limited

Strategic report *continued*

Leadership and governance *continued*

Board Committees *continued*

Finance Committee

The Finance Committee members include a chairman appointed by the largest shareholder of FGP Topco Limited, the Chief Executive Officer, the Chief Financial Officer and a Non-Executive Director representing each shareholder entitled to appoint a director to the Board.

The Finance Committee is a sub-committee of the Board and also acts as a forum for obtaining consents required from the shareholders of FGP Topco Limited.

The Finance Committee is responsible for approving various matters relating to the Group's debt financing arrangements prior to their implementation including approval for:

- any prospectus or other listing document required in relation to the issuance of any capital markets instruments or any formal information memorandum in relation to borrowing by any member of the Group;
- the borrowing of any money or the assumption of any indebtedness by any member of the Group (including by way of the issue of securities) in excess of certain financial thresholds;
- the refinancing of any existing indebtedness in respect of any member of the Group in excess of certain financial thresholds;
- the making of any repayments of principal in addition to scheduled principal payments on any debt that may be owing by any member of the Group;
- other than as required by the financing arrangements of any member of the Group, the making of any material loan or advance or giving of any guarantee, indemnity or provision of any credit, in each case in excess of certain financial thresholds;

Executive Committee

The Executive Committee consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Information Officer, the General Counsel and Group Company Secretary, the Corporate Affairs Director, the Procurement Director, the HR Director, and the Strategy Director.

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

The Executive Committee is responsible for, among other things, developing, reviewing and refreshing medium and long term Group business strategies, policies and development plans for Board approval and agreeing short-term tactics and action plans to ensure their delivery.

Responsible Heathrow and Operational Risk Committee

The Responsible Heathrow and Operational Risk Committee (formerly the Sustainability and Operational Risk Committee) is chaired by an independent Non-Executive Director, and its members include the Chief Executive Officer and three shareholder Non-Executive Directors who attend the Board.

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

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Internal controls and risk management

Internal controls and risk management are key elements of the Group's corporate operations. Risk is centrally managed within the Group as part of the corporate services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team which implements and manages risk closely, setting the guidelines for the Group. The Executive Committee, Board, Audit Committee ('AC') and the Responsible Heathrow and Operational Risk Committee ('RHORC') referred to below relate to the Executive Committee, Board, AC and RHORC 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

The Group has 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 its activities. The Group recognises that a failure to exercise this responsibility effectively also risks operational disruption, inconvenience to passengers and long-term damage to its reputation.

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

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

Strategy, regulation and competition

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Internal controls and risk management *continued*

Risk management *continued*

Strategy, regulation and competition *continued*

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 the Group's 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. The Group undertakes extensive consultation with community groups and authorities at a local level and is an active participant in government consultations and other advisory groups.

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 steps have been put in place to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their 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.

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

Corporate social responsibility

The Group understands the importance to its business of the communities in which it operates, and through consultation and engagement seeks to ensure that their concerns are taken into account in the operation and planning of Heathrow.

The Group undertakes procurement responsibly and encourage trade and employment opportunities with the local communities. Progressive influencing of third parties, stakeholders 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. The Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Operational risks to the delivery of Responsible Heathrow goals are reviewed and monitored by the RHORC.

Management of change

The risk of unanticipated long-term changes in passenger demand for air travel could lead to a shortfall in revenue and misaligned operational capacity within the Group. Since it is not possible to identify the timing or period of such an effect, the Group carries out evaluations through a series of scenario planning exercises.

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

Heathrow Airport Holdings Limited

Strategic report *continued*

Internal controls and risk management *continued*

Risk management *continued*

Supply chain

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

Financial stability

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

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

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

(a) Interest rates

The Group maintains a mix of fixed and floating rate debt. As at 31 December 2015, fixed rate debt after hedging with derivatives represented 96% of the Group's total external nominal debt.

(b) Inflation

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

(c) Foreign currency

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

(d) Funding and liquidity

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

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

Heathrow Finance has positive cash flows after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to January 2018. As at 31 December 2015, cash and cash equivalents and term deposits were £727 million, undrawn headroom under revolving credit facilities was £1,475 million, committed term debt financing to be drawn after 31 December 2015 was £240 million and undrawn headroom under liquidity facilities was £750 million.

Heathrow Airport Holdings Limited

Strategic report *continued*

Internal controls and risk management *continued*

Risk management *continued*

Financial stability *continued*

(e) Counterparty credit

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

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F2. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+ (S&P)/A- (Fitch).

On behalf of the Board



John Holland-Kaye
Director

22 February 2016

Heathrow Airport Holdings Limited

Directors' report

The Directors present their Annual report and the audited financial statements for the year ended 31 December 2015.

Change to accounting framework

The Financial Reporting Council ('FRC') developed a set of new Financial Reporting Standards ('FRS') applicable for periods beginning on or after 1 January 2015 that provide a number of options for all UK entities. These revised financial reporting standards fundamentally reform financial reporting and are implemented by FRS 100 'Application of Financial Reporting Requirements' ('FRS 100'). FRS 100 sets out rules and guidance on the appropriate accounting framework options for companies and groups within FRS 101 'Reduced Disclosure Framework' ('FRS 101'), FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' ('FRS 102') or EU-adopted IFRS.

As the Group is already reporting under EU-adopted IFRS there has been no impact on the Group reporting results and position.

The Company has chosen to adopt FRS 101, a reduced disclosure framework of EU-adopted IFRS. The Company assessed the options available and concluded to adopt FRS 101 as it is considered by the Directors to provide the greatest positive impact on reserves of the company of the available options. As allowed by the transitional provisions of IFRS 1 ('First-time Adoption of International Financial Reporting Standards'), the carrying value of investments at the transition date has been fair valued and recorded as deemed cost at that date. Accordingly, the Company has recorded an increase at the transition date in the carrying value of its investment in subsidiaries of £931 million, of which £736 million has been credited to the profit and loss reserve, as means of reversing an impairment provision previously recorded against this investment, and the remaining £195 million held in revaluation reserve.

The transition date from the previous accounting standards to FRS 101 is 1 January 2014. FRS 101 grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to FRS 101. An explanation of these and how the transition affected the previously reported financial position and financial performance of the Company has been disclosed in Note 10 to the parent company financial statements.

Principal activities

The principal activity of the Group is as the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service.

On 1 September 2015 the beneficial ownership of the Heathrow Express rail business transferred from Heathrow Airport Limited to Heathrow Express Operating Company Limited as a separate train operating company on an arm's length basis. This change of beneficial ownership had no impact on the results of the Group.

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are contained in the Strategic report on pages 2 to 23.

Results and dividends

The profit after taxation for the financial year amounted to £702 million (2014: £308 million). In the year ended 31 December 2015, dividends of £331 million (2014: £1,098 million) were made by the Group which funded £300 million in quarterly dividends paid to the Group's ultimate shareholders and £31 million of interest payments at ADI Finance 2 Limited. 2014 comprised a £670 million one-off dividend following the disposal of the NDH1 Group, £270 million in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to the servicing of external debt at the Company's immediate holding companies. The statutory results for the year are set out on page 29.

Directors

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

Sir Anthony Nigel Rudd (Chairman)

Akbar Abbas Al Baker

Stuart Baldwin

Christopher Beale

David Begg

Ali Bouzarif

Olivier Fortin

(Appointed 27 October 2015)

Jorge Gil

John Holland-Kaye

José Leo

(Resigned 25 March 2015)

Rachel Lomax

Ernesto López

Fidel López

Michael Powell

Michael Uzielli

(Appointed 9 June 2015)

Yan Wang

(Appointed 23 September 2015)

Richard Agutter

Alternate Director

Paul Barr

Alternate Director

Juan Carlos Bullón

Alternate Director

Samuel Coxe

Alternate Director

Heathrow Airport Holdings Limited

Directors' report *continued*

Directors *continued*

Ignacio Aitor García	Alternate Director	
Robert Horsnall	Alternate Director	
Deven Karnik	Alternate Director	
Eric Lachance	Alternate Director	(Appointed 27 October 2015)
Iñigo Meirás	Alternate Director	
David Xie	Alternate Director	(Appointed 23 September 2015)

Company Secretary

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

Employment policies

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

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

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

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Group has further procedures to ensure that disabled colleagues are fairly treated and that their training and career development needs are carefully managed. Where employees have become disabled during the course of employment, the Group endeavours to ensure continuing employment through the arrangement of appropriate training.

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

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. Bonuses paid to employees reflect the financial performance of the business. In addition, some senior management participate in a long-term incentive plan which also rewards based on group performance.

Donations

The Group's charitable donations for the year amounted to £2 million (2014: £2 million). The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows.

Hillingdon Community Trust (charity number: 1098235)	£1,000,000	Heathrow Airport Limited made a 15 year commitment ending 2017 to make an annual grant of £1 million to the Hillingdon Community 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 Airport Communities Trust (charity number: 1058617)	£770,000	Heathrow Airport Limited made donation to the charity LHR Airport Communities Trust, an independently run grant-making charity which operates the Heathrow Community Fund. The fund also received income from the proceeds of noise fines collected by Heathrow. Through the fund grant programme the charity supports significant and positive change for communities near the airport, with a priority on funding projects linked to education, the environment and economic regeneration. The charity also supports airport staff volunteering and fundraising to improve their community for a cause they believe in.
Green Corridor (charity number: 1092093)	£10,000	Green Corridor offers young people the opportunity to expand their skills, experience and qualifications through land-based activities with the primary aim of reducing social exclusion in some of west London's poorest areas.
Dreamflight (charity number: 1117303)	£5,000	Provides children with serious illness or disability with their holiday of a lifetime.

Heathrow Airport Holdings Limited

Directors' report *continued*

Donations *continued*

Heathrow also supported fundraising for the benefit of Oxfam during the year as it approaches the end of a third year of a charity partnership with Oxfam. Heathrow celebrated passing the fantastic milestone of helping to raise £500,000 for Oxfam's work. In 2015 alone, a total of £236,400 was raised through foreign exchange coin collections around the terminals at Heathrow airport, with an additional £65,232 raised through various employee fundraising schemes and events.

Internal controls and risk management

The Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Group's internal controls and risk management policies can be found on pages 20 to 23 in the Internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies

The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on pages 20 to 23 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.

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



Michael Uzielli
Director

22 February 2016

Company registration number: 05757208

Heathrow Airport Holdings Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

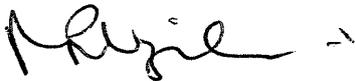
In preparing the Group and parent Company financial statements, International Accounting Standard ('IAS') 1 requires that directors:

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

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

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

On behalf of the Board



Michael Uzielli
Director

22 February 2016

Heathrow Airport Holdings Limited

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

We have audited the group financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2015 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the EU.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2015.



Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

22 February 2016

Heathrow Airport Holdings Limited

Consolidated income statement

	Note	Year ended 31 December 2015			Re-presented ¹ Year ended 31 December 2014		
		Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items ² £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items ² £m	Total £m
Continuing operations							
Revenue	1	2,767	-	2,767	2,691	-	2,691
Operating costs ¹	2	(1,848)	236	(1,612)	(1,718)	(18)	(1,736)
Other operating items							
Fair value gain on investment properties	6,9		95	95		46	46
Operating profit	1	919	331	1,250	973	28	1,001
Financing							
Finance income	4a	251	-	251	237	-	237
Finance costs	4a	(919)	-	(919)	(980)	-	(980)
Fair value gain/(loss) on financial instruments	4b		150	150		(153)	(153)
		(668)	150	(518)	(743)	(153)	(896)
Profit/(loss) before tax		251	481	732	230	(125)	105
Taxation before change in tax rate		(46)	(89)	(135)	(51)	17	(34)
Change in tax rate		-	100	100	-	-	-
Taxation credit/(charge)	5	(46)	11	(35)	(51)	17	(34)
Profit/(loss) for the year from continuing operations		205	492	697	179	(108)	71
Profit from discontinued operations ³	6	-	5	5	8	229	237
Consolidated profit/(loss) for the year		205	497	702	187	121	308

¹ 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.

² 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. The presentation of exceptional items has been changed in the current year as disclosed in the accounting policies.

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

Heathrow Airport Holdings Limited

Consolidated statement of comprehensive income

	Year ended 31 December 2015	Year ended 31 December 2014
Note	£m	£m
Profit for the year	702	308
Other comprehensive income:		
Items that will not be subsequently reclassified to the consolidated income statement		
<i>Continuing operations</i>		
Actuarial loss on pensions	20,25	(3)
Tax relating to retirement benefits ¹	25	(10)
Change in tax rate	25	7
Tax relating to indexation of operating land	25	-
		1
Items that may be subsequently reclassified to the consolidated income statement		
<i>Continuing operations</i>		
Available-for-sale investments		
Gain taken to equity	25	4
Cash flow hedges		
Loss taken to equity	25	(131)
Change in tax rate	25	(9)
Transferred to income statement	25	179
		148
<i>Discontinued operations</i>		
Cash flow hedges		
Loss taken to equity	25	-
Transferred to income statement	25	-
Recycled to income statement on disposal of subsidiary	6,25	-
		10
		13
		30
Currency translation		
Loss taken to equity	25	-
Recycled to income statement on liquidation of subsidiary	6,25	-
		(1)
		(12)
Other comprehensive income/(loss) for the year net of tax	37	(157)
Total comprehensive income for the year	739	151

¹ Relates to £50 million commutation payment for which the Group receives no tax relief.

Items in the statement above are disclosed net of tax. The tax relating to each component of other comprehensive income is disclosed in Note 25.

Heathrow Airport Holdings Limited

Consolidated statement of financial position as at 31 December 2015

	Note	31 December 2015 £m	Re-presented ¹ 31 December 2014 £m
Assets			
Non-current assets			
Property, plant and equipment	8	11,467	11,571
Investment properties	9	2,156	2,054
Intangible assets	10	2,909	2,894
Available-for-sale investments	11	31	26
Retirement benefit surplus	20	104	-
Derivative financial instruments	17	173	172
Trade and other receivables	13	116	116
		16,956	16,833
Current assets			
Inventories	12	11	10
Trade and other receivables	13	225	256
Derivative financial instruments	17	-	2
Term deposits	15	550	170
Restricted cash	14	11	10
Cash and cash equivalents	15	199	323
		996	771
Total assets		17,952	17,604
Liabilities			
Non-current liabilities			
Borrowings	16	(12,464)	(12,195)
Derivative financial instruments	17	(1,102)	(1,334)
Deferred income tax liabilities	19	(960)	(935)
Retirement benefit obligation	20	(28)	(228)
Provisions	21	(2)	(11)
Trade and other payables	22	(13)	(6)
		(14,569)	(14,709)
Current liabilities			
Borrowings	16	(986)	(929)
Derivative financial instruments	17	(90)	(1)
Provisions	21	(10)	(27)
Current income tax liabilities		(27)	(17)
Trade and other payables	22	(382)	(441)
		(1,495)	(1,415)
Total liabilities		(16,064)	(16,124)
Net assets		1,888	1,480
Equity			
Capital and reserves			
Share capital	23	2,666	2,666
Other reserves	24	(274)	(317)
Retained earnings	26	(504)	(869)
Total shareholder's equity		1,888	1,480

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.

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 22 February 2016. They were signed on its behalf by:



John Holland-Kaye
Director



Michael Uzielli
Director

Heathrow Airport Holdings Limited

Consolidated statement of changes in equity

	Note	Attributable to owners of the Company			Total £m
		Share capital £m	Other reserves £m	Retained earnings £m	
1 January 2014		2,666	(311)	72	2,427
Comprehensive income:					
Profit for the year				308	308
Other comprehensive income:					
Profit/(loss) on re-measurement of the following:					
Cash flow hedges net of tax			(23)	-	(23)
Cash flow hedges recycled to income statement on disposal	6,25		30	-	30
Actuarial loss on pensions net of tax	20,25		-	(152)	(152)
Currency translation	25		(1)	-	(1)
Currency translation recycled to income statement on liquidation	6,25		(12)	-	(12)
Tax relating to indexation of operating land	25		-	1	1
Total comprehensive income			(6)	157	151
Transaction with owners:					
Dividends paid	7,26			(1,098)	(1,098)
Total transaction with owners				(1,098)	(1,098)
1 January 2015		2,666	(317)	(869)	1,480
Comprehensive income:					
Profit for the year				702	702
Other comprehensive income:					
Profit/(loss) on re-measurement of the following:					
Available-for-sale investments	11,25		4	-	4
Cash flow hedges net of tax	25		39	-	39
Actuarial loss on pensions net of tax	20,25		-	(3)	(3)
Tax relating to retirement benefits			-	(10)	(10)
Change in tax rate			-	7	7
Total comprehensive income			43	696	739
Transaction with owners:					
Dividends paid	7,26			(331)	(331)
Total transaction with owners				(331)	(331)
31 December 2015		2,666	(274)	(504)	1,888

Heathrow Airport Holdings Limited

Consolidated statement of cash flows

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash flows from operating activities			
Cash generated from continuing operations	28	1,591	1,515
Taxation			
Corporation tax paid		(24)	-
Group relief received ¹		2	-
Cash generated from discontinued operations		-	69
Net cash from operating activities		1,569	1,584
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(595)	(746)
Investment properties		(7)	(78)
Intangible assets		(25)	(32)
Proceeds on disposal of:			
Property, plant and equipment		-	-
Increase in term deposits ²		(380)	(170)
Disposal proceeds	6	-	1,045
Cash held by, and other cash movements of, discontinued operations ³	6	(50)	(81)
Utilisation of disposal proceeds ⁴	6	(6)	(355)
Net cash used in investing activities		(1,063)	(417)
Cash flows from financing activities			
Dividends paid	7	(331)	(1,098)
Proceeds from issuance of bonds		1,022	1,525
Repayment of bonds		(660)	(516)
Repayment of subordinated facilities		(78)	(165)
Drawdown of subordinated facilities		125	-
Issuance of term note		150	100
Repayment of other facilities and other items		(45)	(56)
Decrease in amount owed to parent		-	(10)
Cancellation and restructuring of derivatives		-	9
Settlement of accretion on index-linked swaps		(213)	(185)
Interest paid		(605)	(569)
Interest received		8	5
Financing activities of discontinued operations			(35)
Net cash used in financing activities		(627)	(995)
Net (decrease)/ increase in cash and cash equivalents		(121)	172
Cash and cash equivalents at beginning of year		331	159
Cash and cash equivalents at end of year	15	210	331
Represented by:			
Cash and cash equivalents		210	333
Overdrafts		-	(2)
Cash and cash equivalents at end of year	15	210	331

1 Received from the NDH1 Group after its disposal in December 2014.

2 Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.

3 Other cash movements of discontinued operations in 2015 relates to a £50 million pensions commutation payment associated with the Group's disposal of the NDH1 Group which was sold in December 2014.

4 Utilisation of disposal proceeds in 2015 relates to £6 million separation costs resulting from the disposal of the NDH1 Group.

Heathrow Airport Holdings Limited

Accounting policies

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

Statement of compliance

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU').

The Group

The Company is the holding company of a group of companies that owns Heathrow airport ('Heathrow') and operates Heathrow Express ('HEX'), the express rail service between Heathrow and central London. Heathrow Airport Holdings Limited is a limited liability company incorporated in Great Britain and registered in England and Wales, and domiciled in the UK. Its registered office is The Compass Centre, Nelson road, Hounslow, Middlesex, TW6 2GW.

Basis of accounting

The Group financial statements are prepared in accordance with IFRS as issued by the IASB and as adopted by the EU and prepared under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under fair value hedge accounting. 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.

Primary financial statements format

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

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column. The items in this column have been amended during the year to expand the definition to include exceptional items and the effect on taxation of changes in tax rates. Management believe that as exceptional items are material to the Group and non-recurring, including them in a separate column results in a more informative presentation of the performance of the underlying business. Management also believe that the impacts from changes in tax rates are better presented in the separate column, so that the tax charge remaining in the first column (before certain re-measurements and exceptional items) results directly from the profit before tax shown in that column.

The column ('certain re-measurements and exceptional items') now contains the following items:

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

The 2014 amounts have been re-presented to provide the financial information for both years in a consistent manner.

Going concern

The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including 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 (refer to the Recent financing activities section in the Financial review).

Whilst the Group is in a net current liability position, 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 Group's funding requirement for the twelve months following the date when the Statement of financial position was signed.

Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

There were no new IFRSs which became effective for the first time in 2015. However, the following pronouncements, previously endorsed by the EU in 2014, were effective for periods commencing on or after 1 January 2015, but had no impact on the results of the Group:

- IAS 19 Defined Benefit Plans: Employee Contributions (amendments);
- Annual improvements to IFRSs 2010-2012; and
- Annual improvements to IFRSs 2011-2013.

Heathrow Airport Holdings Limited

Accounting policies *continued*

Changes in accounting policy and disclosures *continued*

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

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

- IFRS 9 Financial Instruments;
- IFRS 14 Regulatory Deferral Accounts;
- IFRS 15 Revenue from Contracts with Customers;
- IFRS 16 Leases;
- Annual Improvements to IFRSs 2012-2014;
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception;
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses; and
- Amendments to IAS 7: Disclosure Initiative.

The adoption of IFRS 9 Financial Instruments may widen the ability to hedge account within the group financial statements. The Group does not fall within the scope of IFRS 14 Regulatory Deferral Accounts as it is neither a first time adopter of IFRS nor allowed to account for regulatory deferral account balances under its previous GAAP. During 2016 the Group will review IFRS 15 to determine the impact (if any) on both revenue recognition and disclosure of contracts and will review IFRS 16 to determine the impact (if any) on its existing leasing arrangements and contracts with third parties.

The Group does not expect the adoption of any of the other standards or amendments listed above to have a material impact on the Group financial statements, with the exception of IFRS 9 Financial Instruments where it is not yet known what the impact will be.

Basis of consolidation

The Group financial statements consolidate the financial statements of Heathrow Airport Holdings Limited and all its subsidiaries.

Subsidiaries

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

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

Segment reporting

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

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes 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 time parked and whether aircraft are wide or narrow bodied as provided.
- Other charges levied for passenger and baggage operations when these services are rendered.

Retail

- Concession fees from retail and commercial concessionaires at the airport are based upon reported revenue by concessionaires, taking into account contracted minimum guarantees where appropriate, 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.

Other Regulated Charges ('ORCs')

- Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided.
- Charges related to passengers with restricted mobility and various other services recognised at the time of delivery.
- Other invoiced sales, recognised on the performance of the service.

Revenue *continued*

Other

- Property letting rentals recognised on a straight-line basis over the term of the rental period.
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale.
- Rail ticket sales, recognised at the point of sale.

Contributions

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

Exceptional items

The Group separately presents certain items on the face of the income statement as exceptional. Exceptional items are material items of income or expense that, because of their size or incidence, merit separate presentation to allow an understanding of the Group's financial performance. They are not expected to be incurred on a recurring basis.

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

In 2015 certain restructuring costs, previously categorised as exceptional, were reclassified as operating costs and re-categorised as such in both 2015 and the preceding year.

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

Refer to Primary financial statements format for changes in the presentation of exceptionals.

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and available for use. Such borrowing costs are capitalised whilst projects are in progress.

Where assets in the course of construction are financed by specific borrowing facilities the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise, otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

All other borrowing costs, including costs incurred in respect of the maintenance of the Group's credit setting, are recognised in the income statement in the year in which they are incurred.

Assets classified as held-for-sale

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

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

Discontinued operations

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

Property, plant and equipment

Operational assets

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

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Group. The Group reviews these projects on a regular basis, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

Depreciation

Depreciation is provided on operational assets, other than land and assets in the course of construction, to write off the cost of the assets less estimated residual value, by equal instalments over their expected useful lives as set out below:

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

In certain circumstances, the asset life may fall outside of the boundaries disclosed above.

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

Impairment of assets (excluding goodwill)

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of a cash-generating unit exceeds its recoverable amount, the cash-generating unit is considered impaired and is written down to its recoverable amount.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the reporting date, as determined by the directors and supported by external valuers every year. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise. Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Goodwill

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

Internally-generated intangible assets

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

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

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

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

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

Purchased intangible assets (software costs)

Computer software costs principally relate to operating and financial software. These assets are amortised over a period of between three and seven years. Amortisation for the year is charged through operating costs.

Other intangible assets

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

Leases

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

Group as a lessee

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

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

Leases continued**Group as a lessee continued**

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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

Group as a lessor

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

Inventories

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

Restricted cash

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

Cash and cash equivalents

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

Term deposits

Term deposits with an original maturity of over three months are shown separately on the Statement of financial position and Statement of cash flows.

Deferred income

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

Provisions

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

Restructurings

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

Onerous contracts

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

Financial instruments

Trade and other receivables

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

Investments

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

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

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

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all other liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

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

Bond issue costs

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

Trade and other payables

Trade and other payables are non-interest bearing and are recognised initially at their fair value and subsequently at amortised cost.

Financial instruments *continued*

Derivative financial instruments and hedging activities

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

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

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

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

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

Derivatives at fair value through the income statement

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

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

Accounting for changes in credit risk

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Group's derivatives is updated quarterly based on current market data.

Employment costs

The Group's airport incurs the cost of people which are contractually employed by LHR Airports Limited but provide services to the operation of the airport. Charges in relation to employment costs include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other associated expenses properly incurred by the employees of LHR Airports Limited in providing the services.

Centralised services

LHR Airports Limited is considered to be acting as principal in relation to the services of the HAHL Board and Ferrovia advisory services. These costs are recharged to Heathrow Airport Limited (the only remaining airport party to the SSA) with a mark-up of 7.5%. Other services are paid for and sourced directly by Heathrow Airport Limited. The principal versus agent judgement has been reached following consideration of whether the Company has been exposed to the majority of the significant benefits and risks associated with the exchange transaction.

Pension costs

Heathrow Airport Limited and Heathrow Express Operating Company Limited ('HEX') have had an obligation since August 2008 to fund or benefit from their share of the LHR Airports Limited defined benefit pension scheme (or 'BAA Pension Scheme') deficit or surplus and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities under the SSA. Previously when part of a group with multiple operations, these provisions or assets were 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 arose due to current service costs, net finance costs or income, employer cash contributions and actuarial gains or losses. Heathrow Airport Limited and HEX recorded their share of the net actuarial gain or loss for the year as an exceptional item due to their size and nature.

Following the disposal of the NDH1 group in December 2014, the directors have reassessed the Group's relationship with the legal sponsor of the retirement benefit schemes (LHR Airports Limited) given that the Group's sole operating airport 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 Heathrow Airport Limited, and consequently 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/obligations. Additionally, it is now considered appropriate for the Group to record actuarial gains and losses on the external scheme within other comprehensive income.

There is no impact on cash or net assets as a result of this change as it is not a change in accounting policy as the change has arisen as a result of the disposal of the NDH1 Group. Consequently there will be no restatement of financial information in the prior period to align with the new method of accounting.

Current and deferred income tax

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

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

Deferred income taxation is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

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

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 reduction in the par value. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Dividend distribution

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

Foreign currency

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

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale investments, are recognised in equity within the fair value reserve.

Heathrow Airport Holdings Limited

Significant accounting judgements and estimates

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

Critical judgements in applying the Group's accounting policies

Investment properties

Investment properties are fair valued by CBRE Limited, Chartered Surveyors. The valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 79% (2014: 80%) 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 investment properties.

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period end and charges to the income statement. The factors have been determined in consultation with the Group's actuary taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position of the Group pension scheme is recorded as a net actuarial gain or loss and is reflected in the statement of comprehensive income. Further details are available in Note 20.

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, projects on hold and operational activities where judgement is exercised to determine costs that are directly attributable to the assets under construction.

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 specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions will probably be sustained. In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current tax liabilities.

Key sources of estimation uncertainty

Hedge accounting

Certain interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of forecast transactions and existing liabilities. Management compares on a regular basis existing and historic hedging arrangements against expectations for future Sterling re-financing. If there were significant changes in the expected quantum of future Sterling re-financing, then levels may be insufficient to support components of the cash flow hedge reserve, requiring the recycling of the cash flow hedge reserve through the income statement. As at 31 December 2015, £353 million of fair value losses (2014: £410 million) on these derivatives have been deferred into the cash flow hedge reserve.

Fair value of derivative financial instruments

The fair value of derivative financial instruments is calculated using a discounted cash flow approach and using inputs based on observable market data. Judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives.

Heathrow Airport Holdings Limited

Notes to the Group financial statements

1 Segment information

As described in the accounting policies on page 35, the Group's operating segments are Heathrow, Heathrow Express and Other operations. The 'Other operations' segment consists of corporate activities and other commercial operations.

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

The performance of the NDH1 Group which was sold in December 2014, is distinguished from the performance of continuing Group operations through the classification as discontinued operations.

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

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

Table (c) details depreciation and amortisation, fair value adjustments, and profit and loss on disposals by reportable segment.

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

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

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

1 Segment information *continued*

Table (a) Year ended 31 December 2015	Segment revenue				Total external revenue £m	EBITDA £m
	Aero-nautical £m	Retail £m	ORCs £m	Other £m		
Heathrow	1,699	569	239	124	2,631	1,528
Heathrow Express	-	-	-	132	132	80
	1,699	569	239	256	2,763	1,608
Other operations	-	-	-	4	4	-
Continuing operations	1,699	569	239	260	2,767	1,608
Reconciliation to statutory information:						
Unallocated income and expense						
Depreciation and amortisation (table (c))						(689)
Operating profit (before certain re-measurements and exceptional items)						919
Exceptional items						236
Fair value gain on investment properties (certain re-measurements)						95
Operating profit						1,250
Finance income						251
Finance costs						(919)
Fair value loss on financial instruments (certain re-measurements)						150
Profit before tax						732
Taxation before certain re-measurements and exceptional items						(46)
Taxation (certain re-measurements and exceptional items)						11
Taxation						(35)
Profit for the year – continuing operations						697
Profit from discontinued operations ¹ (Note 6)						5
Consolidated profit for the year						702

¹ For the year ended 31 December 2015, there were no disposals of discontinued operations but the Group realised £5m from the release of surplus disposal provisions made in the previous year.

Revenue of approximately £903 million was derived from a single external customer and has been included within the Heathrow segment.

Heathrow Airport Holdings Limited

Notes to the Group financial statements *continued*

1 Segment information *continued*

Table (b) Year ended 31 December 2014	Segment revenue				Total external revenue £m	EBITDA £m
	Aero-nautical £m	Retail £m	ORCs £m	Other £m		
Heathrow	1,683	523	232	121	2,559	1,485
Heathrow Express	-	-	-	129	129	74
	1,683	523	232	250	2,688	1,559
Other operations	-	1	-	2	3	-
Total continuing operations	1,683	524	232	252	2,691	1,559
Reconciliation to statutory information						
Unallocated income and expense						
Depreciation and amortisation (table (c))						(586)
Operating profit (before certain re-measurements and exceptional items)						973
Exceptional items ¹						(18)
Fair value gain on investment properties (certain re-measurements)						46
Operating profit						1,001
Finance income						237
Finance costs						(980)
Fair value loss on financial instruments (certain re-measurements)						(153)
Profit before tax						105
Taxation before certain re-measurements and exceptional items						(51)
Taxation (certain re-measurements and exceptional items)						17
Taxation						(34)
Profit for the year – continuing operations						71
Profit from discontinued operations (Note 6)						237
Consolidated profit for the year						308

¹ 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 2014 to operating costs.

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

1 Segment information *continued*

Table (c)

	Year ended 31 December 2015			Year ended 31 December 2014		
	Depreciation & amortisation ¹ £m	Fair value gain ² £m	Profit on disposals £m	Depreciation & amortisation ¹ £m	Fair value gain ² £m	Profit on disposals £m
Heathrow	(642)	95	-	538	46	-
Heathrow Express	(47)	-	-	43	-	-
	(689)	95	-	581	46	-
Other operations	-	-	-	5	-	-
Continuing operations	(689)	95	-	586	46	-
Discontinued operations	-	-	-	28	7	223
Total	(689)	95	-	614	53	223

¹ Includes intangible asset amortisation and impairment charges of £39 million (2014: £34 million).

² Reflects fair value gains on investment properties only.

Table (d)

	31 December 2015			Re-presented ¹ 31 December 2014		
	Assets ² £m	Liabilities £m	Capital expenditure £m	Assets ² £m	Liabilities £m	Capital expenditure £m
Heathrow	15,797	(328)	578	15,805	(358)	718
Heathrow Express	994	(9)	8	1,003	(9)	12
	16,791	(337)	586	16,808	(367)	730
Other operations	93	(70)	-	93	(118)	-
Discontinued operations ³	-	-	-	-	-	19
Total operations	16,884	(407)	586	16,901	(485)	749
Unallocated assets and liabilities:						
Term deposits	550			170		
Cash, borrowings and available-for-sale investments	241	(13,450)		359	(13,124)	
Derivative financial instruments	173	(1,192)		174	(1,335)	
Retirement benefit surplus/(obligations)	104	(28)		-	(228)	
Taxation	-	(987)		-	(952)	
Total	17,952	(16,064)	586	17,604	(16,124)	749

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 Heathrow segment.

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

³ At 31 December 2014 discontinued operations comprised solely the NDH1 Group.

1 Segment information *continued*

Section (e)

Heathrow Airport Holdings Limited is domiciled in the UK. All revenue from external customers for continuing operations comes from the UK which for the year ended 31 December 2015 was £2,767 million (2014: £2,691 million). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

Non-current assets excluding derivative financial instruments were £16,782 million (2014: £16,661 million). There were no non-current assets held outside the UK (2014: £nil).

2 Operating costs – continuing operations

The presentation of revenue and operating costs has been changed to more closely reflect the way in which the business is managed. Operating cost categories and allocations have changed. The change is to introduce a category for Operational costs which mainly includes costs from baggage operations, inter-terminal operations, IT, NATS and rents. These costs, with the exception of rent, were previously reported under General Expenses. The Maintenance category now includes cleaning which was also reported under General Expenses. The residual General Expenses are now categorised as Other costs.

The amounts in respect of the year ended 31 December 2014 have been re-presented to be presented on a consistent basis with the current year.

Operating costs, excluding exceptional items, include the following:

	Year ended 31 December 2015 £m	Re-presented Year ended 31 December 2014 £m
Employment		
Wages and salaries	326	337
Social security	29	32
Pension	55	61
Share-based payments	-	1
Other staff related costs	27	16
Own staff costs capitalised	(38)	(55)
	399	392
Operational	243	259
Maintenance	187	174
Rates	123	114
Utilities	93	103
Other	114	90
Total adjusted operating costs	1,159	1,132
Depreciation, amortisation and impairment		
Property, plant and equipment	650	552
Intangible assets	39	34
	689	586
Operating costs before exceptional items	1,848	1,718
Exceptional items (Note 3)	(236)	18
Total operating costs	1,612	1,736

Rentals under operating leases

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
<i>Operating costs include:</i>		
Plant and machinery	35	33
Other	16	17
	51	50
Property lease and sub-lease charges – minimum lease payments	12	16

2 Operating costs – continuing operations *continued*

Auditor's remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by Heathrow Airport Limited.

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Fees payable to the Company's auditor for the audit of the Group's annual accounts		
Audit of the Company's subsidiaries, pursuant to legislation ¹	0.4	0.4
Total audit fees	0.4	0.4
Fees payable to the Company's auditor and their associates for other services specific to the Group		
Audit related assurance services	0.1	0.2
Other taxation advisory services	-	0.2
Other assurance services	0.2	0.2
Total non-audit fees	0.3	0.6
Total fees²	0.7	1.0

¹ Fees payable to the Company's auditors for the audit of the Company's annual accounts was £21,000 (2014: £21,000).

² Auditor's remuneration for 2014 includes services provided for both continuing and discontinued operations.

Employee numbers

The average number of employees of the Group was 6,714 (2014: 7,047 for continuing operations).

	Year ended 31 December 2015	Year ended 31 December 2014
Continuing operations		
<i>United Kingdom</i>		
Heathrow	6,104	6,441
Other operations	610	606
	6,714	7,047
Discontinued operations		
<i>United Kingdom</i>		
NDH1 Group Airports	-	954
Total	6,714	8,001

Management and Directors' remuneration

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Key management compensation¹		
Salaries and short-term employee benefits ^{2,3}	8,351	8,172
Sum paid to related parties for directors' services	1,200	1,080
Termination benefits	579	-
	10,130	9,252

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

² For the year ended 31 December 2015 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

³ £2,780,000 of bonus was paid in cash in 2015 (2014: £2,865,000).

Key management participates in various Long Term Incentive Performance Cash Plans. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three period. Key management's compensation includes £1,464,000 payable in 2016 (2014: £564,000 paid in 2015) in respect of the 2013 LTIP Plan after certain targets were met over the three year period from 2013 to 2015. As the financial performance in respect of the 2014 and 2015 Plans is so uncertain at this stage, no value in relation to these awards is included above.

2 Operating costs – continuing operations *continued*

Directors' remuneration

	Year ended 31 December 2015	Year ended 31 December 2014
	£'000	£'000
Aggregate emoluments ^{1,2}	3,555	3,189
Sums paid to related parties for Directors' services	1,200	1,080
Termination benefits	575	-
	5,330	4,269

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

² £1,252,000 of bonus was paid in cash in 2015 (2014: £1,354,000).

The directors participate in various Long Term Incentive Performance Cash Plans. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The directors' remuneration includes £634,000 payable in 2016 (2014: £110,000 paid in 2015) in respect of the 2013 LTIP Plan after certain targets were met over the three year period from 2013 to 2015. As the financial performance in respect of the 2014 and 2015 Plans is so uncertain at this stage, no value in relation to these awards is included above.

During the year a new bonus scheme was launched based on EBITDA, passenger service (as measured by independent ASQ scores) and airport expansion over the Q6 period, as the performance in respect of this scheme is so uncertain at this stage, no value in relation to these awards is included above.

During the year, none of the directors (2014: none) had retirement benefits accruing to them under a defined benefit scheme and two of the directors (2014: one) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2014: one) exercised any share options during the year in respect of their services to the Group and no shares (2014: none) were received or became receivable under long term incentive plans.

Highest paid director

	Year ended 31 December 2015	Year ended 31 December 2014
	£'000	£'000
Salary and allowances	885	975
Bonus accrued	700	-
Amount accrued under LTIP	476	-
	2,061	975

During the year, the highest paid director had retirement benefits accruing to him under a defined contribution scheme and no retirement benefits accruing to him under a defined benefit scheme. £581,000 of bonus was paid in cash in 2015 (2014: £998,000).

During the year a new bonus scheme was launched based on EBITDA, passenger service (as measured by independent ASQ scores) and airport expansion over the Q6 period, as the performance in respect of this scheme is so uncertain at this stage, no value in relation to these awards is included above.

The highest paid director participates in various Long Term Incentive Performance Cash Plans. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The highest paid director's remuneration includes £476,000 payable in 2016 (2014: nil paid in 2015) in respect of the 2013 LTIP Plan after certain targets were met over the three year period from 2013 to 2015. As the financial performance in respect of the 2014 and 2015 Plans is so uncertain at this stage, no value in relation to these awards is included above.

3 Exceptional items – continuing operations

	Year ended 31 December 2015 £m	Re-presented ¹ Year ended 31 December 2014 £m
Pensions past service credit	236	-
Terminal 2 operational readiness	-	(18)
Exceptional items before income tax	236	(18)
Tax (charge)/credit on exceptional items	(45)	4
Total exceptional items after tax	191	(14)

¹ 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 2014 to operating costs.

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.

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.

4 Financing – continuing operations

(a) Net finance costs before certain re-measurement and exceptional items

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Finance income		
Income from available-for-sale financial assets	3	3
Interest receivable on derivatives not in hedge relationship	243	231
Interest on deposits	5	3
	251	237
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments ¹	(614)	(580)
Bank loans and overdrafts and related hedging instruments	(75)	(84)
Amortisation on bond redemption ²	-	(62)
Interest payable on derivatives not in hedge relationship ³	(241)	(323)
Facility fees and other charges	(6)	(16)
Net pension finance costs	(4)	(3)
Unwinding of discount on provisions	(1)	(1)
Total borrowing costs	(941)	(1,069)
Less: capitalised borrowing costs ⁴ (Note 8)	22	89
	(919)	(980)
Net finance costs before certain re-measurements	(668)	(743)

¹ Includes accretion charge of £9 million on index-linked bonds. In 2014 bonds and related hedging instruments included accretion charge of £20 million on index-linked bonds and a one-off non-cash amortisation credit of £24 million released from the cash flow hedge reserve relating to residual balances remaining on maturity of certain swaps in hedge relationship.

² Amortisation on bond redemption in 2014 included a one-off non-cash £61 million amortisation charge recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedge relationship.

³ A deferred tax credit of £12 million relating to the amortisation charge was recognised within the tax charge.

⁴ Includes accretion charge of £65 million (2014: £139 million) on index-linked swaps.

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.

(b) Fair value gain/(loss) on financial instruments

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest rate swaps: cash flow hedge ¹	(2)	3
Interest rate swaps: not in hedge relationship	37	(196)
Cross-currency swaps: cash flow hedges ¹	(10)	9
Cross-currency swaps: fair value hedges ¹	38	3
Index-linked swaps: not in hedge relationship ²	87	26
Equity swaps: not in hedge relationship	-	1
Fair value re-measurements of foreign exchange contracts and currency balances	-	1
Fair value gain/(loss) on financial instruments	150	(153)
Net finance costs	(518)	(896)

¹ Hedge ineffectiveness of derivatives in cashflow and fair value hedge relationships.

² Reflects the impact on valuation of movements in implied future inflation and interest rates.

5 Taxation – continuing operations

	Year ended 31 December 2015			Year ended 31 December 2014		
	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items £m	Total £m
UK corporation tax						
Current tax (charge)/credit at 20.25% (2014: 21.5%)	(44)	-	(44)	(4)	4	-
Over provision in respect of prior years	12	-	12	3	-	3
Deferred tax						
Current year (charge)/credit	(10)	(89)	(99)	(47)	13	(34)
Prior year charge	(4)	-	(4)	(3)	-	(3)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	-	100	100	-	-	-
Taxation credit/(charge) for the year	(46)	11	(35)	(51)	17	(34)

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit before tax before certain re-measurement and exceptional items	251	230
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 20.25% (2014: 21.5%)	(51)	(49)
Adjustments in respect of current income tax of previous years	12	3
Adjustments in respect of deferred income tax of previous years	(4)	(3)
Net (non-deductible expenses)/non-taxable income ¹	(3)	(2)
Total tax charge before certain re-measurements and exceptional items	(46)	(51)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	100	-
Tax (charge)/ credit on certain re-measurements and exceptional items	(89)	17
Taxation charge for the year	(35)	(34)

¹ For 2014, the non-taxable income includes amounts associated with the Group's disposal of the NDH1 Group.

The total tax charge recognised for the year ended 31 December 2015 was £35 million (2014: £34 million). Based on a profit before tax for the year of £732 million (2014: £105 million), this results in an effective tax rate of 4.8% (2014: 32.4%).

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 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 £100 million being taken to the income statement.

Excluding the impact of the change in the future UK tax rates, and adjusting for certain re-measurements and exceptional items, the tax charge recognised for the year on ordinary activities of £46 million (2014: £51 million) results in an effective tax rate of 18.3% (2014: 22.2%). This is less (2014: more) than implied by the statutory rate of 20.25% (2014: 21.5%) primarily due to adjustments in respect of previous years. Excluding the adjustments in respect of previous years, the effective tax rate would be higher than the statutory rate as a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

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.

6 Discontinued operations

In 2014, discontinued operations represented components of the Group that were disposed of or classified as held-for-sale during that year. In accordance with IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', the results and cash flows of these 'disposal groups' are reported separately from the performance of continuing operations at each reporting date.

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

During the year ended 31 December 2015, a £50 million commutation payment was made in relation to pensions.

For the year ended 31 December 2015, there were no disposals of discontinued operations but the Group utilised £6 million of reorganisation provisions (Note 21) and realised £5m from the release of surplus disposal provisions made in the previous year.

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

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

Discontinued operations - consolidated income statement

	Year ended 31 December 2014		
	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items £m	Total £m
Revenue	174	-	174
Operating costs			
Depreciation and amortisation	(28)	-	(28)
Other	(106)	-	(106)
Other items			
Fair value gain on investment properties	-	7	7
Operating profit	40	7	47
Profit on disposal of operations ¹	-	223	223
Financing			
Finance costs	(29)	-	(29)
Fair value gain on financial instruments	-	1	1
	(29)	1	(28)
Profit before tax	11	231	242
Tax charge	(3)	(2)	(5)
Profit for the year	8	229	237

¹ Attributable primarily to the disposal of the NDH1 Group and the liquidation of BAA Italia in 2014.

6 Discontinued operations *continued*

Reconciliation of disposal proceeds to profit on disposal of discontinued operations

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

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

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

Utilisation of disposal proceeds

Disposal proceeds were utilised to pay £670 million of dividends (Note 7), £355 million to repay facilities and cancel derivatives held by the NDH1 Group, and £20 million paid to the pension scheme in relation to a retirement benefit indemnity release. As stated above, a £50 million pension commutation payment was made.

7 Dividends

In the year ended 31 December 2015, dividends of £331 million were made by the Group which funded £300 million of quarterly dividends paid to shareholders and £31 million of interest payments at ADI Finance 2 Limited. (2014: £1,098 million comprising a £670 million one-off return on investment in the NHD1 Group, £270 million in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries).

8 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings ¹ £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2014		8,331	1,227	302	125	1,260	3,558	14,803
Additions		-	-	3	-	-	636	639
Transfers to completed assets		2,663	114	468	10	11	(3,266)	-
Transfers to assets held-for-sale		(472)	(256)	(41)	(15)	-	(17)	(801)
Borrowing costs capitalised	4	-	-	-	-	-	89	89
Disposals ²		(125)	(3)	(44)	(5)	(2)	-	(179)
Transfers to investment properties	9	(10)	(2)	-	-	-	-	(12)
Reclassifications ²		174	1	117	5	27	-	324
1 January 2015		10,561	1,081	805	120	1,296	1,000	14,863
Additions		-	-	-	-	-	554	554
Transfers to completed assets		586	202	11	56	44	(899)	-
Borrowing costs capitalised	4	-	-	-	-	-	22	22
Disposals		(73)	(1)	(12)	(4)	(1)	-	(91)
Transfers to intangibles	10	-	-	-	-	-	(29)	(29)
Reclassifications ³		27	-	-	-	-	-	27
31 December 2015		11,101	1,282	804	172	1,339	648	15,346
Depreciation and impairment								
1 January 2014		(2,152)	(287)	(131)	(30)	(245)	-	(2,845)
Charge for the year		(418)	(46)	(68)	(5)	(43)	-	(580)
Transfers to assets held-for-sale		161	90	25	2	-	-	278
Disposals ²		125	4	44	5	1	-	179
Reclassifications ²		(174)	(1)	(117)	(5)	(27)	-	(324)
1 January 2015		(2,458)	(240)	(247)	(33)	(314)	-	(3,292)
Charge for the year		(465)	(45)	(81)	(12)	(47)	-	(650)
Disposals		73	1	12	4	1	-	91
Reclassifications ³		(27)	(1)	-	-	-	-	(28)
31 December 2015		(2,877)	(285)	(316)	(41)	(360)	-	(3,879)
Net book value								
31 December 2015		8,224	997	488	131	979	648	11,467
31 December 2014		8,103	841	558	87	982	1,000	11,571

¹ Other land and buildings are freehold except for certain short leasehold properties with a net book value of £11 million (2014: £9 million).

² Following the disposal of NDH1 Group in December 2014, the Group reviewed the amounts presented within property, plant and equipment to ensure they appropriately reflect the value of assets still in continuing use in the business. This resulted in certain amendments between cost and accumulated depreciation but had no impact on the net book value of the balances reported.

³ Reclassification of £27 million (2014: £174 million) cost and amortisation with £nil impact on the net book value in relation to historic adjustments.

Assets in the course of construction

The major balances in assets in the course of construction are the Asset Management programme to replace depreciated assets, the Terminal 3 Integrated Baggage project, which will enable the processing of check in and transfer baggage in a single facility, and the Passenger Experience programme.

Borrowing costs capitalised

During the year ended 31 December 2015, borrowing costs of £22 million were capitalised (2014: £89 million). Capitalised borrowing costs for both continuing and discontinued operations were calculated by applying an average interest rate of 5.20% (2014: 6.47%) to expenditure incurred on qualifying assets.

A tax deduction of £22 million (2014: £89 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Leased assets

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

	31 December 2015 £m	31 December 2014 £m
Cost or valuation	686	674
Accumulated depreciation	(239)	(209)
Net book value	447	465

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

9 Investment properties

	<i>Note</i>	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
1 January 2014		2,056	131	2,187
Additions		-	78	78
Transfers to completed assets		205	(205)	-
Transfers from property, plant and equipment	8	11	1	12
Revaluation ^{1,2}		49	4	53
Transfers to held-for-sale	8	(276)	-	(276)
1 January 2015		2,045	9	2,054
Additions		7		7
Transfers to completed assets		9	(9)	-
Revaluation		95		95
31 December 2015		2,156	-	2,156

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

² The revaluation in 2014 included £4 million in respect of a car park under construction at Terminal 5; this asset became operational in 2015.

Investment properties were valued at fair value at 31 December 2015 by CBRE Limited, Chartered Surveyors (2014: CBRE Limited, Chartered Surveyors).

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

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

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £1 million (2014: £1 million) for which a similar amount is included within operating costs.

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

10 Intangible assets

	Goodwill £m	Right to operate £m	Software costs £m	Retail contracts £m	Other £m	Total £m
Cost						
1 January 2014	2,842	477	170	115	5	3,609
Additions	-	-	32	-	-	32
Disposals	-	-	(26)	(36)	(5)	(67)
Transfers to assets held-for-sale	(86)	(477)	-	-	-	(563)
Reclassifications	-	-	(21)	-	-	(21)
1 January 2015	2,756	-	155	79	-	2,990
Additions	-	-	25	-	-	25
Disposals ^{1,2}	(3)	-	(3)	(14)	-	(20)
Transfers from property, plant and equipment	-	-	29	-	-	29
31 December 2015	2,753	-	206	65	-	3,024
Amortisation and impairment						
1 January 2014	(89)	(289)	(63)	(82)	(2)	(525)
Charge for the year	-	-	(25)	(6)	-	(31)
Impairment	-	-	-	-	(3)	(3)
Transfers to assets held-for-sale	86	289	-	-	-	375
Disposals	-	-	26	36	5	67
Reclassifications	-	-	21	-	-	21
1 January 2015	(3)	-	(41)	(52)	-	(96)
Charge for the year	-	-	(35)	(4)	-	(39)
Disposals ^{1,2}	3	-	3	14	-	20
31 December 2015	-	-	(73)	(42)	-	(115)
Net book value						
31 December 2015	2,753	-	133	23	-	2,909
31 December 2014	2,753	-	114	27	-	2,894

¹ Following the disposal of NDH1 Group in December 2014, the Group reviewed the amounts presented within intangible assets to ensure they appropriately reflect the value of assets still in continuing use in the business. This has resulted in certain amendments between cost and accumulated depreciation but has had no impact on the net book value of the balances reported.

² The disposal of Goodwill related to intellectual property of the Group's investment in Ultra Global Limited. The initial write off was recorded in 2010 as a result of an impairment test carried out.

Goodwill and right to operate

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

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

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

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

An impairment test is a comparison of the carrying value of the assets of a CGU, to their recoverable amount calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, an impairment exists. The carrying value of goodwill at Heathrow was tested for impairment as at 31 December 2015. No impairment charges resulted.

The Group used as the starting base for Heathrow's long-term business plan the latest operational projections approved by the Board in December 2015. Projections beyond Q6 reflect Heathrow's plan presented to the Board of Directors in May 2015 (including passenger forecasts, investment plans, expected income and cost) and the result of future settlements has been simulated.

10 Intangible assets *continued*

Goodwill and right to operate continued

Key assumptions

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

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

Sensitivity analysis

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

Software costs

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

Software costs include assets in the course of construction of £29 million (2014: £61 million).

11 Available-for-sale investments

	2015 £m	2014 £m
Unlisted securities		
1 January	26	26
Gain recognised in equity	5	-
31 December	31	26

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

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031. A rate of 7.5% (2014: 10%) has been used as the discount factor.

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

12 Inventories

	31 December 2015 £m	31 December 2014 £m
Consumables	11	10

The total amount of inventories consumed in the year was £6 million (2014: £4 million).

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

13 Trade and other receivables

	31 December 2015 £m	31 December 2014 £m
Non-current		
Prepayments ¹	23	23
Other receivables	-	-
Amounts owed by parent entity	93	93
	116	116
Current		
Trade receivables	187	227
Less: provision for impairment	(1)	(2)
Trade receivables – net	186	225
Prepayments	30	26
Other receivables	9	5
	225	256

¹ Non-current prepayments include £6 million (2014: £6 million) financing fees on facilities not yet drawn. These are amortised over the term of the facility.

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

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

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

As at 31 December 2015, trade receivables of £152 million (2014: £200 million) were fully performing. Trade receivables of £29 million (2014: £18 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2015 £m	31 December 2014 £m
Fully performing	152	200
Past due but not impaired		
Not impaired but overdue by less than 30 days	19	2
Not impaired but overdue by between 30 and 60 days	4	7
Not impaired but overdue by more than 60 days	6	9
	29	18
Overdue by more than 90 days	6	9

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

	2015 £m	2014 £m
1 January	2	3
Provision for receivables impairment	(1)	-
Receivables written off during the year as uncollectible	-	(1)
31 December	1	2

13 Trade and other receivables *continued*

As at 31 December 2015, trade receivables were considered for impairment of which £1 million (2014: £2 million) was provided for, with the remaining amount expected to be fully recovered. The individual impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included in 'general expenses' within 'operating costs' in the Consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery.

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 18.

14 Restricted cash

	31 December 2015	31 December 2014
	£m	£m
Cash account	6	10
Short-term deposits	5	-
	11	10

15 Cash and cash equivalents, and term deposits

	31 December 2015	31 December 2014
	£m	£m
Cash at bank and in hand	18	220
Short-term deposits	181	103
Cash and Cash equivalents	199	323
Term deposits	550	170
Cash and cash equivalents, and term deposits	749	493

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates to their book value.

Heathrow Airport Limited holds investments in Term deposits, which have an original maturity of over three months.

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

	31 December 2015	31 December 2014
	£m	£m
Cash at bank and in hand	24	230
Short-term deposits	186	103
Bank overdraft (Note 16)	-	(2)
	210	331

16 Borrowings

	31 December 2015 £m	31 December 2014 £m
Current		
Secured		
Bank loans	39	39
Heathrow Funding Limited bonds:		
12.450% £300 million due 2016	304	
4.125% €500 million due 2016	365	
3.000% £300 million due 2015		300
2.500% US\$500 million due 2015		320
Total Heathrow Funding Limited bonds	669	620
Unsecured		
Bank loans and overdrafts	-	2
Total current (excluding interest payable)	708	661
Interest payable	278	268
Total current	986	929
Non-current		
Secured		
Heathrow Funding Limited bonds:		
12.450% £300 million due 2016	-	324
4.125% €500 million due 2016	-	379
4.375% €700 million due 2017	516	542
2.500% CHF400 million due 2017	271	257
4.600% €750 million due 2018	548	575
6.250% £400 million due 2018	396	395
4.000% CAD400 million due 2019	195	219
6.000% £400 million due 2020	397	397
9.200% £250 million due 2021	290	297
3.000% CAD450 million due 2021	225	248
4.875% US\$1,000 million due 2021	698	664
1.650% + RPI £180 million due 2022	195	193
1.875% €600 million due 2022	453	485
5.225% £750 million due 2023	733	731
7.125% £600 million due 2024	590	589
3.250% CAD 500 million due 2025	248	-
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	684	683
2.650% NOK 1,000 million due 2027	77	-
7.075% £200 million due 2028	227	228
1.500% €750 million due 2030	504	-
6.450% £900 million due 2031	991	998
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	572	571
1.238% + RPI £100 million due 2040	101	100
5.875% £750 million due 2041	734	736
4.625% £750 million due 2046	741	742
1.372% + RPI £75 million due 2049	77	76
Total Heathrow Funding Limited bonds	11,036	10,888
Heathrow Finance plc bonds:		
7.125% £325 million due 2017	291	320
5.375% £275 million due 2019	261	271
5.750% £250 million due 2025	248	248
Total Heathrow Finance plc bonds	800	839
Total bonds	11,836	11,727

16 Borrowings *continued*

	31 December 2015	31 December 2014
	£m	£m
Bank loans - Heathrow	98	136
Term note: 3.770% £100 million due 2026	100	100
Term note: 2.630% £80 million due 2030	80	-
Term note: 2.970% £70 million due 2035	70	-
Subordinated facilities	125	77
Total bank loans	473	313
Total external borrowings	12,309	12,040
Borrowings from parent	155	155
Total non-current	12,464	12,195
Total borrowings (excluding interest payable)	13,172	12,856

Bonds

The bonds are all issued by Heathrow Funding Limited. The maturity dates listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and Heathrow Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.250% £400 million due 2018, 6.000% £400 million due 2020, 7.125% £600 million due 2024, 4.221% £155 million due 2026 bonds and 1.061% +RPI £115 million due 2036 bonds wherein the redemption dates coincide with their legal maturity dates.

Fair value of borrowings

	31 December 2015		31 December 2014	
	Book value £m	Fair value ¹ £m	Book value £m	Fair value ¹ £m
Current				
Short-term debt	708	727	661	666
Non-current				
Long-term debt	12,309	13,748	12,040	14,040
Borrowings from parent	155	155	155	155
	13,172	14,630	12,856	14,861

¹ Fair value of borrowings are for disclosure purposes only.

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices and are classified as Level 1. For unlisted borrowings, the Group establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data (Level 2). The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value. At 31 December 2015, the fair value of debt classified as Level 1 and Level 2 was £13,738 million and £892 million respectively (2014: £13,938 million and £923 million respectively).

The average cost of the Group's external gross debt at 31 December 2015 was 4.50% (2014: 4.71%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2015 was 4.91% (2014: 5.73%). The reduction in the average cost of debt since the end of 2014 is mainly due to lower inflation throughout 2015.

Securities and guarantees

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

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

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

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

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

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

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

17 Derivative financial instruments

31 December 2015	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Cross-currency swaps	434	-	(60)	(60)
Index-linked swaps	300	-	(30)	(30)
	734	-	(90)	(90)
Non-current				
Interest rate swaps	2,963	-	(408)	(408)
Cross-currency swaps	3,930	154	(188)	(34)
Index-linked swaps	5,116	19	(506)	(487)
	12,009	173	(1,102)	(929)
Total	12,743	173	(1,192)	(1,019)
31 December 2014				
Current				
Interest rate swaps	100	-	(1)	(1)
Cross-currency swaps	319	2	-	2
	419	2	(1)	1
Non-current				
Interest rate swaps	2,163	-	(450)	(450)
Cross-currency swaps	3,447	151	(101)	50
Index-linked swaps	5,266	21	(783)	(762)
	10,876	172	(1,334)	(1,162)
Total	11,295	174	(1,335)	(1,161)

Interest rate swaps

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

Cross-currency swaps

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

Index-linked swaps

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

Foreign exchange contracts

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

18 Financial instruments

Financial risk management objectives and policies

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

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

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

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

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

Foreign exchange risk

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

The Group is not exposed to foreign exchange risk on borrowings after hedging. The Group is not materially exposed to foreign exchange risk on an economic basis.

Price risk

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

The Group is exposed to RPI risk on its index-linked bonds and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2015, with all other variables remaining constant, if the RPI had increased or decreased by a factor of 10%, annual pre-tax profit would have decreased or increased by £208 million and £203 million respectively (2014: £230 million and £222 million respectively).

Cash flow and fair value interest rate risk

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

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

As at 31 December 2015, the Group's fixed floating interest rate profile, after hedging, on gross debt was 96:04 (2014: 98.02).

Each 0.5% change in interest rates, would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movements in the finance income, finance cost and mark-to-market valuation of derivatives:

	31 December 2015		31 December 2014	
	Income statement impact	Equity impact	Income statement impact	Equity impact
	£m	£m	£m	£m
0.50% increase	193	13	172	15
0.50% decrease	(204)	(14)	(183)	(15)

18 Financial instruments *continued*

Credit risk

Credit risk arises from cash and cash equivalents, term deposits, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents and term deposits 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/F2. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with long-term credit ratings below BBB+ (S&P)/A- (Fitch).

As at 31 December 2015, the Group had credit risk on derivatives with asset mark to market of £173 million (2014: £174 million).

Financial assets past due but not impaired are disclosed in Note 13 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2015 is £1,150 million (2014: £929 million) as disclosed in Note 18 'Financial instruments'.

Liquidity risk

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year. Further details of the risk management objectives and policies are disclosed in the Internal controls and risk management section of the Strategic report in the statutory annual report and financial statements.

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

	31 December 2015 £m	31 December 2014 £m
Floating rate facilities		
Expiring in more than two years	1,475	1,525
	1,475	1,525

As at 31 December 2015, overdraft facilities of £10 million were available (2014: £10 million).

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

	31 December 2015			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	773	1,185	1,902	9,422
Borrowing interest payments	615	571	1,460	3,863
Derivative financial instruments	91	(15)	49	(178)
Trade payables	164	-	-	-
Capital payables	122	-	-	-

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

18 Financial instruments *continued*

Liquidity risk continued

The table below analyses the expected gross undiscounted contractual cash flows on the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December to the contractual maturity date. The table should be viewed in conjunction with the table presenting undiscounted cash flows on the Group's financial liabilities and net settled derivative financial instruments.

	31 December 2015			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	121	90	123	83
Cross-currency derivative receipts	(140)	(125)	(227)	(450)

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

Capital risk management

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

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to the Regulatory Asset Base ('RAB'). Net debt is the external consolidated nominal net debt at the entity within the Group that the relevant debt facility sits.

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

	31 December 2015	31 December 2014
Net debt to RAB at Heathrow Finance plc	0.849	0.845
Total net debt to RAB at Heathrow (SP) Limited	0.787	0.784
Senior net debt to RAB at Heathrow (SP) Limited	0.675	0.680

18 Financial instruments *continued*

Financial instruments by category

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

31 December 2015					
	Loans and receivables	Assets at fair value through income statement	Derivatives qualifying for hedge accounting	Available-for-sale	Total
	£m	£m	£m	£m	£m
Available-for-sale investments	-	-	-	31	31
Derivative financial instruments	-	19	154	-	173
Cash and cash equivalents	210	-	-	-	210
Trade receivables	186	-	-	-	186
Other receivables	550	-	-	-	550
Total financial assets	946	19	154	31	1,150

31 December 2015					
		Liabilities at fair value through income statement	Derivatives qualifying for hedge accounting	Other financial liabilities at amortised cost	Total
		£m	£m	£m	£m
Borrowings		-	-	(13,172)	(13,172)
Derivative financial instruments		(772)	(420)	-	(1,192)
Trade payables		-	-	(164)	(164)
Capital payables		-	-	(122)	(122)
Total financial liabilities		(772)	(420)	(13,458)	(14,650)

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

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

18 Financial instruments *continued*

Financial instruments by category continued

In the year ended 31 December 2015, the Group takes changes in derivatives at fair value through the income statement, except where they qualify for cash-flow hedges in which case the changes are taken to reserves. In addition, for qualifying fair value hedges, the fair value movement on the hedged item is also taken through the income statement.

Fair value estimation

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

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

At 31 December 2015 and 2014, all the resulting fair value estimates on derivative financial instruments are included in level 2.

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

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- market prices for credit spreads based on counterparty's credit default swap prices and company's bond spread;
- the fair value of cross-currency and interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The tables below present the Group's assets (other than investment properties) and liabilities that are measured at fair value as at 31 December:

	31 December 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	19	-	19
Derivatives qualifying for hedge accounting	-	154	-	154
Available-for-sale investments	-	-	31	31
Total assets	-	173	31	204
Liabilities				
Liabilities at fair value through income statement	-	(772)	-	(772)
Derivatives qualifying for hedge accounting	-	(420)	-	(420)
Total liabilities	-	(1,192)	-	(1,192)

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

18 Financial instruments *continued*

Fair value estimation continued

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the year, there were no transfers between the levels in the fair value hierarchy.

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

19 Deferred income tax

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

	Note	2015 £m	2014 £m
1 January		(935)	(1,084)
Charged to income statement ¹		(103)	(39)
Credited to income statement – change in tax rate		100	-
(Charged)/credited to equity	25	(20)	35
Charged to equity – change in tax rate	25	(2)	-
Transfers to liabilities held-for-sale		-	153
31 December		(960)	(935)

¹ During the year ended 31 December 2015 £nil million charge (2014: £2 million charge) related to discontinued operations.

The movements in deferred income tax assets and liabilities during the financial year are shown below.

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Revaluations of property, plant and equipment £m	Fair value of retail contracts £m	Post- employment benefits £m	Other £m	Total £m
1 January 2014	(987)	(210)	(77)	(44)	-	(30)	(1,348)
(Charged)/credited to income statement	(53)	(19)	-	1	-	6	(65)
Credited to other comprehensive income	-	-	1	-	-	-	1
Transfers to liabilities held-for-sale	82	35	8	38	-	1	164
1 January 2015	(958)	(194)	(68)	(5)	-	(23)	(1,248)
(Charged)/credited to income statement	(6)	(19)	-	1	-	(1)	(25)
Credited to income statement - change in tax rate	92	11	8	-	-	2	113
Charged to other comprehensive income	-	-	-	-	-	(1)	(1)
Credited/(charged) to other comprehensive income - change in tax rate	-	8	(1)	-	-	-	7
Re-allocation from deferred income tax assets note	-	-	-	-	(19)	-	(19)
31 December 2015	(872)	(194)	(61)	(4)	(19)	(23)	(1,173)

19 Deferred income tax continued
Deferred income tax assets

	Capital losses £m	Non trade deficit £m	Financial instruments £m	Fair value of long-term borrowings £m	Fair value uplift of bonds £m	Post employment benefits £m	Total £m
1 January 2014	12	101	56	43	25	27	264
(Charged)/credited to income statement	-	(5)	49	(6)	(1)	(11)	26
Credited to equity	-	-	1	-	-	33	34
Transfers to liabilities held-for-sale	-	-	(7)	-	(1)	(3)	(11)
1 January 2015	12	96	99	37	23	46	313
Charged to income statement	-	(7)	(16)	(5)	-	(50)	(78)
(Charged)/credited to income statement - change in tax rate	(1)	(8)	1	(3)	(1)	(1)	(13)
Charged to other comprehensive income	-	-	(10)	-	-	(9)	(19)
Charged to other comprehensive income - change in tax rate	-	-	(9)	-	-	-	(9)
Re-allocation to deferred income tax liabilities note	-	-	-	-	-	19	19
31 December 2015	11	81	65	29	22	5	213

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash flow hedge reserve	(10)	10
Cash flow hedge reserve – change in tax rate	(9)	-
Cash flow hedge reserve recycled to income statement on disposal (Note 6)	-	(9)
Available-for-sale investments	(1)	-
Retirement benefits	(9)	33
Tax relating to indexation of operating land	-	1
Retained earnings – change in tax rate	7	-
	(22)	35

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. As a result, the Group's deferred tax balances, which were previously provided at 20%, were re-measured at the rate at which the Group believes the temporary differences will reverse. This resulted in a reduction in the net deferred tax liability of £98 million, with £100 million credited to the income statement and £2 million charged to other comprehensive income. There are not considered to be other known items which would materially affect the future tax charge.

Deferred income tax assets have been recognised in respect of all temporary differences giving rise to deferred income tax assets where it is considered probable that there will be sufficient future taxable profit against which these assets will be recovered.

20 Retirement benefit obligations

The Group has applied the requirements of the standard IAS 19 'Employee Benefits (Revised 2011)' ('IAS 19R') for the year ended 31 December 2015. The total cost of defined contribution pension arrangements are fully expensed as employment costs. Comparative figures for the years ended 31 December 2014 and 2013 are also included.

Characteristics of the Group's pension related liabilities

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

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

20 Retirement benefit obligations *continued*

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

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

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

The following tables identify the amounts in the Group's financial statements arising from its pension related liabilities. Further details of each scheme (except defined contribution schemes) are within sections a) and b).

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2015 £m	Year ended ¹ 31 December 2014 £m	Year ended 31 December 2013 £m
Employment costs:			
Defined contribution schemes	8	8	7
BAA Pension Scheme	46	53	55
Unfunded schemes	-	-	1
	54	61	63
Finance cost - BAA Pension Scheme	3	3	3
Total pension costs – continuing operations	57	64	66
Pension costs - discontinued operations within employment costs:			
Defined contribution schemes	-	1	1
BAA Pension Scheme	-	6	8
Total pension costs – discontinued operations	-	7	9
Total pension costs	57	71	75

¹ The presentation of balances for the year ended 31 December 2014 was re-stated to include the results of the NDH1 Group in discontinued operations (Note 6).

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
BAA Pension Scheme	(5)	(182)	(65)
Unfunded schemes	1	(3)	2
Actuarial loss recognised before tax	(4)	(185)	(63)
Tax credit on actuarial loss	1	33	5
Actuarial loss recognised after tax	(3)	(152)	(58)

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

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

	31 December				
	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Fair value of plan assets	3,288	3,274	2,867	2,791	2,691
Benefit obligation	(3,184)	(3,473)	(2,960)	(2,894)	(2,652)
Surplus/(deficit) in BAA Pension Scheme	104	(199)	(93)	(103)	39
Unfunded pension obligations	(22)	(23)	(22)	(24)	(23)
Post-retirement medical benefits	(6)	(6)	(6)	(6)	(6)
Deficit in other pension related liabilities	(28)	(29)	(28)	(30)	(29)
Net surplus/(deficit) in pension schemes	76	(228)	(121)	(133)	10

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme

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

The value placed on the scheme's obligations as at 31 December 2015 is based the full actuarial valuation carried out at 30 September 2013. This has been updated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 December 2015. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

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

	2015 £m	2014 £m	2013 £m
Net defined benefit pension deficit at 1 January	(199)	(93)	(103)
Defined benefit obligation at 1 January	3,473	2,960	2,894
<i>Income statement:</i>			
Current service cost	46	58	58
Past service (gain)/cost ¹	(236)	(31)	(22)
Interest cost	121	133	121
<i>Other comprehensive income:</i>			
Experience (gains) and losses	-	(17)	2
Remeasurements of defined benefit obligation:			
arising from changes in demographic assumptions	-	179	(26)
arising from changes in financial assumptions	(120)	417	112
<i>Cash flows:</i>			
Members' contributions	6	8	8
Settlement gain	-	-	(92)
Bulk liabilities transferred on disposal of NDH1 Group ²	-	(135)	-
Benefits paid (by fund and Group)	(106)	(99)	(95)
Defined benefit obligation at 31 December	3,184	3,473	2,960
Fair value of plan assets at 1 January	3,274	2,867	2,791
<i>Income statement:</i>			
Interest income on plan assets	118	146	118
Administration costs	(2)	(5)	(2)
<i>Other comprehensive income:</i>			
Remeasurement gain/(loss) (return on assets in excess of interest income on plan assets)	(125)	381	23
<i>Cash flows:</i>			
Employer contributions (including benefits paid and reimbursed)	73	108	94
Members' contributions	6	8	8
Stansted airport commutation payment ³	-	-	35
NDH1 Group commutation payment ⁴	50	-	-
Bulk transferred assets on settlement	-	-	(105)
Bulk assets transferred on disposal of NDH1 Group ²	-	(132)	-
Benefits paid (by fund and Group)	(106)	(99)	(95)
Fair value of plan assets at 31 December	3,288	3,274	2,867
Net defined benefit pension surplus/(deficit) at 31 December	104	(199)	(93)

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

² The disposal of the NDH1 Group in 2014 resulted in a net gain on bulk transfer of £3 million (£135 million liabilities transferred and £132 million assets transferred). A curtailment gain of £30 million arose due to members ceasing to accrue pension benefits.

³ The disposal of Stansted airport in 2013 resulted in a net gain on bulk transfer of £12 million. A commutation payment of £35 million was paid in late 2013.

⁴ The commutation payment of £50 million was made as a result of the NDH1 Group disposal on 18 December 2014 (Note 6).

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

For the year ended 31 December 2015, there was a reduction on asset value of £7 million (2014: return of £526 million; 2013: return of £141 million).

For the year ended 31 December 2015, there were experience gains of £nil million (2014: gains of £17 million; 2013: losses of £2 million)

The net actuarial loss before tax of £5 million (2014: £182 million; 2013: £65 million) resulted from actual return on assets being £125m million lower than the expected return and a £120 million gain due to changes in financial assumptions.

The actuarial gain on change in financial assumptions is mainly attributable to an increase in the net yield of 0.25% over the year leading to an increase in the single equivalent discount rate assumption of 0.25% to 3.80% (2014: 3.55%). The actuarial loss of £125 million (2014: gain of £381 million) is due to assets underperforming relative to the discount rate over the year.

Analysis of fair value of plan assets

	31 December 2015 £m	31 December 2014 £m	31 December 2013 £m
Fair value of plan assets			
Equities	758	668	724
Bonds	1,032	1,123	1,155
Other ^{1,2,3}	1,498	1,483	988
Total fair value of plan assets	3,288	3,274	2,867

¹ Other includes £112 million of hedge fund assets and £1,386 million of investment in assets to minimise inflation as at 31 December 2015.

² Other includes £275 million of hedge fund assets and £1,208 million of investment in assets to minimise inflation and interest rate risk as at 31 December 2014.

³ Other includes £112 million of property assets and £876 million of cash, macro oriented and hedging mandate instruments as at 31 December 2013.

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

Analysis of financial assumptions

The financial assumptions used to calculate Scheme assets and liabilities under IAS 19R as at 31 December 2015, 2014 and 2013 are:

	31 December 2015 %	31 December 2014 %	31 December 2013 %
Rate of increase in pensionable salaries	2.0	4.7	4.9
Increase to deferred benefits during deferment	2.5	2.5	2.4
Increase to pensions in payment:			
Open section	3.2	3.1	3.3
Closed section	3.3	3.2	3.4
Discount rate	3.8	3.6	4.6
Inflation assumption	3.3	3.2	3.4

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 27.3 years (2014: 27.1 years) and 29.7 years (2014: 29.6 years) from age 60 for a 40 year old male non-pensioner.

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

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

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

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

At 31 December 2015, the largest single category of investment is an interest rate and inflation hedging mandate, with a value of £1,048 million (32% of the asset holding at 31 December 2015). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk.

Analysis of future cash flows

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

Sensitivity analysis of significant assumptions

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

	(Decrease)/increase in defined benefit obligation	
	Before tax	After tax
	£m	£m
Discount rate		
+0.50% discount rate	(287)	(235)
-0.50% discount rate	330	271
Inflation rate		
+0.50% inflation rate	262	215
-0.50% inflation rate	(234)	(192)
Mortality		
Increase in life expectancy by one year	94	77

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

(b) Other pension and post-retirement liabilities

The Group operates a defined contribution scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £8 million (2014: £9 million; 2013: £8 million).

The Group also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the Scheme rules. The provision for unfunded pension obligations of £22 million (2014: £23 million; 2013: £22 million) is included in the statement of financial position. In addition the Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement is £6 million (2014: £6 million; 2013: £6 million) and this is also included in the statement of financial position. The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

21 Provisions

	Disposal of operations £m	Reorganisation costs £m	Other £m	Total £m
Non-current	-	-	11	11
Current	12	13	2	27
1 January 2015	12	13	13	38
Utilised	(6)	(14)	-	(20)
Charged to income statement	-	6	4	10
Released to income statement	(5)	-	-	(5)
Transfer to trade and other payables ¹	-	-	(11)	(11)
31 December 2015	1	5	6	12
Non-current	-	-	2	2
Current	1	5	4	10
31 December 2015	1	5	6	12

¹ During the year ended December 2015, a deed of amendment was signed between Heathrow Airport Limited and The Secretary of State for Transport in relation to a maintenance obligation on the spur road at Terminal 5. As a result of this amendment, this liability was transferred to trade and other payables.

Disposal of operations

Provisions are held mainly for costs associated with the Group's disposal of the NDH1 Group, which was sold in December 2014.

Reorganisation costs

These are costs associated with the Group's reorganisation programmes primarily relating to restructuring processes designed to reduce the size and costs of overhead functions. The charge relates to severance and pension payments associated with the reorganisation programme being carried out during 2015 and continuing into 2016.

Other

Other provisions mainly relate to some employment costs, which are highly probable but uncertain as to timing or amount. Therefore, the Group has provided its best estimate at the year end.

22 Trade and other payables

	31 December 2015 £m	31 December 2014 £m
Non-current		
Other payables ¹	13	6
	13	6
Current		
Deferred income	29	29
Trade payables	164	167
Other tax and social security	9	9
Other payables ¹	20	22
Capital payables	122	176
Amounts owed to parent entity	38	38
	382	441

¹ Other payables include the transfer of £11 million from provisions in relation to a maintenance obligation on the spur road at Terminal 5 (Note 21).

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

23 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2014, 1 January 2015 and 31 December 2015	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2014, 1 January 2015 and 31 December 2015	42,998,461,934	2,665,904,640

24 Other reserves

	Cash flow hedge reserve £m	Available-for- sale reserve £m	Currency translation reserve £m	Total £m
1 January 2014	(334)	10	13	(311)
Fair value losses	(229)	-	-	(229)
Transferred to income statement	197	-	-	197
Currency translation	-	-	(1)	(1)
Recycled to income statement on disposal/liquidation (Note 6)	39	-	(12)	27
Deferred tax on fair value gains	10	-	-	10
Current tax on fair value losses	(1)	-	-	(1)
Deferred tax on cash flow hedging recycled to income statement on disposal (Note 6)	(9)	-	-	(9)
1 January 2015	(327)	10	-	(317)
Fair value (losses)/gains	(159)	5	-	(154)
Transferred to income statement	217	-	-	217
Deferred tax on fair value losses	(10)	(1)	-	(11)
Change in tax rate	(9)	-	-	(9)
31 December 2015	(288)	14	-	(274)

25 Tax relating to components of other comprehensive income

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

	Year ended 31 December 2015			Year ended 31 December 2014		
	Before tax £m	Tax credit/ (charge) £m	After tax £m	Before tax £m	Tax (charge)/ credit £m	After tax £m
Continuing operations						
Available-for-sale investments						
Gain taken to equity	5	(1)	4	-	-	-
Cash flow hedges						
(Loss)/profit taken to equity	(159)	28	(131)	(217)	43	(174)
Transferred to income statement	217	(38)	179	181	(33)	148
Change in tax rate	-	(9)	(9)	-	-	-
Actuarial (loss)/gain (Note 20)						
Actuarial (loss)/gain	(4)	1	(3)	(185)	33	(152)
Tax relating to retirement benefit	-	(10)	(10)	-	-	-
Change in tax rate	-	7	7	-	-	-
Tax relating to indexation of operating land	-	-	-	-	1	1
Discontinued operations						
Cash flow hedges						
(Loss)/profit taken to equity	-	-	-	(12)	2	(10)
Transferred to income statement	-	-	-	16	(3)	13
Recycled to income statement on disposal of subsidiary (Note 6)	-	-	-	39	(9)	30
Currency translation	-	-	-			
Loss taken to equity	-	-	-	(1)	-	(1)
Recycled to income statement on liquidation of subsidiary (Note 6)	-	-	-	(12)	-	(12)
Other comprehensive (loss)/income	59	(22)	37	(191)	34	(157)
Current tax	-	-	-	-	(1)	-
Deferred tax (Note 19)	-	(22)	-	-	35	-
	59	(22)	37	(191)	34	(157)

26 Retained earnings

	2015 £m	2014 £m
At 1 January	(869)	72
Consolidated profit for the year	702	308
Actuarial loss on pensions (Note 20)	(4)	(185)
Tax gain on actuarial movement	1	33
Tax relating to retirement benefits	(10)	-
Change in tax rate	7	-
Tax relating to indexation of operating land	-	1
Dividends paid ¹ (Note 7)	(331)	(1,098)
At 31 December	(504)	(869)

¹ During the year ended 31 December 2015, the Company paid dividends of £331 million to ADI Finance 2 Limited being £75 million on 27 February 2015, £91 million on 30 June 2015, £75 million on 24 July 2015 and £90 million on 16 December 2015.

27 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

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

	31 December 2015		31 December 2014	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	12	42	13	43
Within two to five years	30	156	36	137
After five years	10	592	12	513
	52	790	61	693

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

A significant portion of the commitments classified as 'other' relates to electricity supply equipment at Heathrow leased on agreement with UK Power Networks Services Limited ('UKPNS'). The lease expires in 2083. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UKPNS as neither the Group nor UKPNS are able to split the base fee between a 'capital' and 'maintenance' charge. The commitment has been discounted at the Group's incremental borrowing rate. The UKPNS contract will be reviewed during 2016 as part of the Group's wider review of IFRS 16 'Leases' as mentioned on page 35.

Non-cancellable operating lease commitments – Group as a lessor

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

	31 December 2015	31 December 2014
	Land and buildings £m	Land and buildings £m
Within one year	95	93
Within two to five years	291	320
After five years	1,745	1,585
	2,131	1,998

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

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

Group commitments for property, plant and equipment

	31 December 2015	31 December 2014
	£m	£m
Contracted for, but not accrued:		
Baggage systems	67	29
Terminal restoration and modernisation	53	2
Tunnel refurbishment	21	69
IT projects	17	13
Capacity optimisation	14	48
	172	161
Other projects	29	38
	201	199

27 Commitments and contingent liabilities *continued*

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. Capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 is currently forecast to be £2.9 billion. The capital programme may increase to up to £3.3 billion, in line with the regulatory settlement. This is subject to further scoping of the remaining individual projects and approval of the corresponding business cases. The capital programme is primarily focused on maintenance and compliance related projects, together with sustaining and improving the passenger experience. The capital plan for the period includes a £1 billion programme of asset management projects and a project to implement latest generation hold baggage screening equipment to comply with EU directive. Capital spend in 2016 is forecast to be in the region of £730 million.

Other commitments

In July 2015 the Airports Commission announced its recommendation of Heathrow's proposal for a third runway. In December 2015 the UK Government indicated that it needed to undertake some additional environmental analysis before determining whether to support the Commission's recommendation. The additional analysis is expected to conclude in the summer of 2016.

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

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

In January 2015, the trustee of the 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.

Heathrow Airport Limited has a commitment to pay £87 million in 2018 to the Department for Transport in relation to the Crossrail project in return for a service commitment for Crossrail to operate services to Heathrow for 15 years. It is expected that the amount will be included in the Regulatory Asset Base.

Contingent liabilities

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £10 million at 31 December 2015 (2014: £9 million).

28 Note to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from continuing operations

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Operating activities			
Profit before tax		732	105
<i>Adjustments for:</i>			
Fair value (gain)/loss on financial instruments	4b	(150)	153
Finance costs	4a	919	980
Finance income	4a	(251)	(237)
Fair value gain on investment properties		(95)	(46)
Depreciation	2	650	552
Amortisation and impairment	2	39	34
Decrease in trade and other receivables		18	10
Increase in inventories		(1)	(1)
(Decrease)/increase in trade and other payables		(7)	5
Decrease in provisions		(4)	(10)
Difference between pension charge and cash contributions		(23)	(30)
Exceptional pension credit: change to terms		(236)	-
Cash generated from continuing operations		1,591	1,515

Reconciliation in net debt

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

	1 January 2015 £m	Cash flow £m	Transfers from non- current to current £m	Other non-cash changes ¹ £m	31 December 2015 £m
Cash and cash equivalents	323	(124)	-		199
Term deposits	170	380	-		550
Current debt	(661)	660	(797)	90	(708)
Non-current debt	(12,040)	(1,174)	797	108	(12,309)
Net debt	(12,208)	(258)	-	198	(12,268)

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

29 Related party transactions

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

Related party	Sales to related party		Purchases from related party		Amounts owed by related party		Amounts owed to related party	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Amey Community Limited	-	-	-	9	-	-	-	-
AGS Airports	3	-	-	-	-	-	-	-
Ferrovial	-	-	5	6	-	-	-	-
Ferrovial Agroman	-	-	35	22	-	-	-	-
Harrods International Limited	22	23	-	-	-	-	-	-
HETCo	-	-	48	106	-	-	-	-
Qatar Airways	31	25	-	-	1	1	-	-
ADI Finance 2 Limited	-	-	-	-	93	93	194	194
	56	48	88	143	94	94	194	194

The related parties above are related through ownership by the same parties. Related party transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arms-length basis. In addition, in 2014 the Group completed the disposal of its 100% shareholding in the NDH1 Group to AGS Airports Limited, which is owned by Macquarie European Investment Fund 4 and Ferrovial Aeropuertos S.A., in an arms-length transaction (Note 6).

30 Parent undertaking and controlling party

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

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

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

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

31 Principal subsidiaries

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

Direct Subsidiaries:

Heathrow Holdco Limited

Indirect subsidiaries:

9G Rail Limited	BMG (Swindon Phases II & III) General Partner Limited	LHR Insurance Services Limited ³
Airport Hotels General Partner Limited	BMG (Swindon) Limited	London Airports 1992 Limited
Airport Property GP (No.1) Limited	BMG Europe Limited ²	London Airports 1993 Limited
BAA (NDH2) Limited	Devon Nominees Limited	London Airports Limited
BAA General Partner Limited	Heathrow (AH) Limited	Non Des Topco Limited
BAA International Limited	Heathrow (DSH) Limited	Scottish Airports Limited
BAA Lynton Developments Limited	Heathrow (SP) Limited	The BMG (Ashford) LP
BAA Lynton Management Limited	Heathrow Airport Holdings Limited	The BMG (Bridgend Phases II and III) LP
BAA Partnership Limited	Heathrow Airport Limited	The BMG (CO Phase IV) LP
BAA Pension Trust Company Limited	Heathrow Enterprises Limited	The BMG (Swindon Phases II and III) LP
BAA Properties Limited	Heathrow Express Operating Company Limited	Ultra Global Limited
BMG (Ashford) General Partner Limited	Heathrow Finance plc	World Duty Free Limited
BMG (Ashford) General Partner Limited	Heathrow Funding Limited ²	
BMG (Ashford) Limited	LHR (Hong Kong) Limited	
BMG (Ashford) Partnership Trustco Limited	LHR (IP Holdco) Limited	
BMG (Bridgend) Limited	LHR Airports Limited	
BMG (Cheshire Oaks) Limited	LHR Building Central Services Limited	
BMG (CO2) Limited	LHR Business Support Centre Limited	

¹ Incorporated in Jersey, but all profit taxed in the UK as a Controlled Foreign Company.

² Incorporated in Jersey, but UK tax resident.

³ Incorporated in the Isle of Man, but all profit taxed in the UK as a Controlled Foreign Company.

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

32 Subsequent events

On 17 February 2016, the Group raised CHF400 million of debt through the issue of a bond in Switzerland. The bond carries a coupon of 0.500% with an 8.25 year tenor, maturing in May 2024.

Heathrow Airport Holdings Limited

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Heathrow Airport Holdings Limited

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

We have audited the parent company financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2015 which comprise the Company statement of financial position, the Accounting policies and the related notes 0 to 12. 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), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2015.



Jacqueline Holden FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

22 February 2016

Heathrow Airport Holdings Limited

Statement of financial position as at 31 December 2015

	Notes	31 December 2015 £m	31 December 2014 £m
Assets			
Non-current assets			
Investments in subsidiaries	2	4,609	4,609
Trade and other receivables	3	946	959
		5,555	5,568
Current assets			
Trade and other receivables	3	98	47
		98	47
Total assets		5,653	5,615
Liabilities			
Non-current liabilities			
Trade and other payables	4	(155)	(155)
Current liabilities			
Trade and other payables		-	-
Total liabilities		(155)	(155)
Net assets		5,498	5,460
Capital and reserves			
Called up share capital	5	2,666	2,666
Profit and loss reserve	6	2,832	2,794
Total shareholder's funds		5,498	5,460

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 22 February 2016. They were signed on its behalf by:



John Holland-Kaye
Director



Michael Uzielli
Director

Heathrow Airport Holdings Limited

Accounting policies for the year ended 31 December 2015

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

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment in subsidiary in accordance with Companies Act 2006 and applicable accounting standards.

Transition to Financial Reporting Standard 101: Reduced Disclosure Framework ('FRS 101')

These financial statements were prepared by the directors in accordance with FRS 101 for the first time. The transition date from the previous financial reporting framework to FRS 101 was 1 January 2014. FRS 101 grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to FRS 101. An explanation of these and how the transition affected the previously reported financial position and financial performance of the Company has been disclosed in Note 10.

Under FRS 101, the Company has chosen to apply the recognition and measurement provisions of International Accounting Standard ('IAS') 27 'Separate Financial Statements', as endorsed by the European Union ('EU').

The Company has taken advantage of certain disclosure exemptions in FRS 101 as its financial statements are included in the publicly available consolidated financial statements of FGP Topco Limited. These disclosure exemptions relate to the, statement of cash flows, related party transactions and the requirement under IFRS 1 to present an opening statement of financial position when adopting FRS 101 for the first time. In addition, the Company has also taken advantage of disclosure exemption of the income statement as allowed by the Companies Act. Copies of those consolidated financial statements may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Going concern

The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Investment in subsidiaries

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

Trade receivables

Trade receivables are recognised initially at cost less any provision for impairment.

Cash

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

Amounts owed to group undertakings

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

Current and deferred taxation

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

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

Deferred income taxation is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Heathrow Airport Holdings Limited

Accounting policies for the year ended 31 December 2015 *continued*

Current and deferred taxation *continued*

Deferred income 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 related deferred tax asset or liability is realised or settled.

Share capital

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

Dividend distribution

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

Cash flow statement and related party disclosures

The ultimate parent entity is FGP Topco Limited, a company registered in England and Wales. The results and cash flows of the Company are included in the publicly available financial statements of the Group.

Under the terms of FRS 101, the Company is exempt from the disclosure requirement of IAS 24 'Related Party Disclosures' and disclosing related party transactions with entities that are wholly-owned subsidiaries of the FGP Topco Limited group.

Heathrow Airport Holdings Limited

Significant accounting judgements and estimates for the year ended 31 December 2015

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 valuation

The Company reviews investment in subsidiary for impairment if there are any indications that the carrying value may not be recoverable. The carrying value of the investment is compared to the recoverable amount of the subsidiary and where a deficiency exists, an impairment charge is considered by management. The recoverable amount has been calculated using the fair value less cost to sell methodology. Fair value less cost to sell has been calculated based on discounted cash flow projections of the business.

Transition to FRS 101

The transition to FRS 101 requires management to make judgements and estimates in relation to the elections that are available in FRS 101. In particular, the deemed cost of the Company's investment in subsidiary on transition to FRS 101 has been recognised at the fair value of that investment at 1 January 2014. The methodology used was based on an Enterprise Valuation allowing for committed debt and obligations in relation to the Enterprise which the directors considered at the time represented the best estimate of the fair value.

Heathrow Airport Holdings Limited

Notes to the Company financial statements for the year ended 31 December 2015

1 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £369 million (2014: £2,237 million).

2 Investments in subsidiaries

	£m
Cost	
1 January 2015 and 31 December 2015	4,609

Details of the principal subsidiary undertakings of the Group have been provided in Note 31 of the Heathrow Airport Holdings Limited consolidated financial statements.

3 Trade and other receivables

	31 December 2015 £m	31 December 2014 £m
Current		
Amounts owed by group undertakings – interest free	29	29
Amounts owed by group undertakings – interest bearing ¹	8	8
Interest owed by group undertakings	61	10
	98	47
Non-current		
Amounts owed by parent undertaking ² – interest free	93	93
Amounts owed by group undertakings ³ – interest bearing	771	770
Deferred tax asset	82	96
	946	959
Total receivables	1,044	1,006

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

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

³ Amounts owed by group undertakings represent a loan advanced to Heathrow Holdco Limited of £770 million (2013: £26 million) and attracts a fixed rate of interest of 6.65% at 31 December 2015. The balance in 2014 included a loan to Non Des Topco Limited of £344 million which was repaid during the period upon disposal of the NDH1 Group.

Deferred tax asset

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. As a result, the Group's deferred tax balances, which were previously provided at 20%, were re-measured at the rate at which the Group believes the temporary differences will reverse. This resulted in a reduction in the Company's deferred tax asset of £8 million. The additional £7 million movement in the deferred tax asset relates to utilisation of the non-trade deficit in 2015. There are no other items which would materially affect the future tax charge.

Deferred income tax assets have been recognised in respect of all temporary differences giving rise to deferred income tax assets where it is probable that these assets will be recovered

	31 December 2015 £m	31 December 2014 £m
Surplus non trade deficit	81	96

4 Trade and other payables: amounts falling due after more than one year

	31 December 2015 £m	31 December 2014 £m
Loan from parent undertaking – interest free	155	155

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

Heathrow Airport Holdings Limited

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

5 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2015 and 31 December 2015	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2015 and 31 December 2015	42,998,461,934	2,665,904,640

6 Profit and loss reserve

	£m
1 January 2015	2,794
Profit for the financial year	369
Dividends paid ¹	(331)
31 December 2015	2,832

¹ During the year ended 31 December 2015, the Company paid dividends of £331 million to ADI Finance 2 Limited being £75 million on 27 February 2015, £91 million on 30 June 2015, £75 million on 24 July 2015 and £90 million on 16 December 2015.

7 Dividends

In the year ended 31 December 2015, dividends of £331 million were made by the Group which funded £300 million of quarterly dividends paid to shareholders and £31 million of interest payments at ADI Finance 2 Limited. (2014: £1,098 million comprising a £670 million one-off return on investment in the NHD1 Group, £270 million in recurring quarterly dividends and £135 million in non-recurring dividend. The remaining £23 million related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries).

8 Auditor's remuneration

The Company's auditor received £21,000 (2014: £21,000) as remuneration for the audit of the Company's financial statements, the cost of which was borne by Heathrow Airport Limited.

9 Employee information and directors' remuneration

Employee numbers

The Company had no employees (2014: none).

Directors' remuneration

None of the directors (2014: none) who served during the year ended 31 December 2015 received any emoluments from the Company.

During the year, none of the directors (2014: none) had retirement benefits accruing to them under a defined benefit or defined contribution pension scheme.

None of the directors (2014: none) exercised any share options during the year in respect of their services to the Company and no shares (2014: none) were received or became receivable under long term incentive plans.

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

Heathrow Airport Holdings Limited

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

10 Transition to FRS 101

As stated in the Basis of preparation section, these are the Company's first financial statements prepared in accordance with FRS 101. The transition date from the previous accounting standards to FRS 101 was 1 January 2014.

The accounting policies adopted in the preparation of these financial statements have been consistently applied to the year ended 31 December 2015, the comparative information for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014.

In preparing its opening FRS 101 balance sheet as at 1 January 2014 the Company has adjusted amounts previously reported in its statutory annual report and financial statements. An explanation of how the transition to FRS 101 has affected the Company's financial position.

First time adoption of FRS 101

FRS 101 grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to FRS 101.

Investment in subsidiary

As allowed by the transitional provisions of IFRS 1 ('First-time Adoption of International Financial Reporting Standards'), the carrying value of investments at the transition date has been fair valued and recorded as deemed cost at that date. Accordingly, the Company has recorded an increase at the transition date in the carrying value of its investment in subsidiaries of £931 million, of which £736 million has been credited to the profit and loss reserve, as means of reversing an impairment provision previously recorded against this investment, and the remaining £195 million held in revaluation reserve.

During 2014 a capital reduction and loan assignment exercise took place which increased the amount receivable in the company from its directly held subsidiary. This effectively increased the aggregated carrying value of the subsidiary and as a result of an impairment review, an impairment provision of £766 million was recorded at 31 December 2014.

Reconciliation of equity

1 January 2014

	Under UKGAAP £m	Fair value uplift on investment in subsidiary £m	Presentational adjustment £m	Under FRS 101 £m
Assets				
Non-current assets				
Investment in subsidiary	4,444	931		5,375
Trade and other receivables			614	614
Current assets				
Trade and other receivables (due after more than one year)	614	-	(614)	-
Cash and cash equivalents	1	-		1
Total assets	5,059	931	-	5,990
Liabilities				
Non-current liabilities				
Trade and other payables	(165)	-		(165)
Current liabilities				
Trade and other payables	(2)	-		(2)
Total liabilities	(167)	-	-	(167)
Net assets	4,892	931	-	5,823
Capital and reserves				
Called up share capital	2,666	-		2,666
Revaluation reserve	-	195		195
Profit and loss reserve	2,226	736		2,962
Total shareholder's funds	4,892	931	-	5,823

Heathrow Airport Holdings Limited

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

10 Transition to FRS101 *continued* Reconciliation of equity *continued*

31 December 2014

	Under UKGAAP £m	Fair value uplift on investment in subsidiary £m	Impairment on investment in subsidiary £m	Presentational adjustment £m	Under FRS 101 £m
Assets					
Non-current assets					
Investment in subsidiary	5,180	195	(766)	-	4,609
Trade and other receivables				1,006	1,006
Current assets					
Trade and other receivables (due after more than one year)	1,006	-	-	(1,006)	-
Cash and cash equivalents	-	-	-	-	-
Total assets	6,186	195	(766)	-	5,615
Liabilities					
Non-current liabilities					
Trade and other payables	(155)	-	-	-	(155)
Current liabilities					
Trade and other payables	-	-	-	-	-
Total liabilities	(155)	-	-	-	(155)
Net assets	6,031	195	(766)	-	5,460
Capital and reserves					
Called up share capital	2,666	-	-	-	2,666
Revaluation reserve	-	195	(195)	-	-
Profit and loss reserve	3,365	-	(571)	-	2,794
Total shareholder's funds	6,031	195	(766)	-	5,460

11 Ultimate parent undertaking and controlling party

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

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

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

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

Registered office

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Registered in England Number: 05757208