Heathrow (SP) Limited

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

Company registration number: 06458621

Heathrow (SP) Limited

Contents

Heathrow (SP) Limited

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Heathrow (SP) Limited

Strategic report

Heathrow (SP) Limited (the 'Company') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service between Heathrow and Paddington, London. Heathrow (SP) Limited is an indirect subsidiary of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings 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 2014, along with the key factors likely to impact the Group in 2015;

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2014 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered;

Leadership and Governance – description of the Board of Directors and the various Committees in Heathrow Airport Holdings Limited which provide overall leadership to the Heathrow group of companies; and

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

Business overview

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

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

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

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

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

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

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

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

Strategic report *continued*

Business overview *continued*

Our priorities

Beat the plan
To secure future investment, we will beat the Q6 business plan and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments efficiently.

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

Win support for expansion
To connect Britain to the world for future generations, we will win support for expansion of Heathrow from our local community, airlines, shareholders, politicians and regulators.

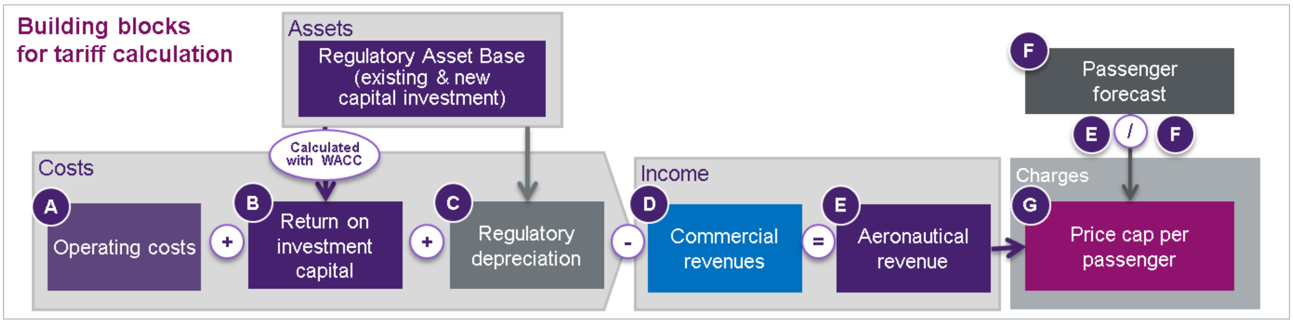
Mojo
To be a great place to work, we will help our people fulfil their potential and work together to lead change across Heathrow with energy and pride.

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

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

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

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



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

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

Strategic report *continued*

Business overview *continued*

Our regulatory environment *continued*

The Price Cap continued

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

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

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

Our income

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

Aeronautical income

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

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

Passenger fees

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

Landing charges

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

Parking charges

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

Non-aeronautical income

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

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

Strategic report *continued*

Business overview *continued*
Our regulatory environment *continued*

Infrastructure

Runways
Heathrow airport has two parallel runways. These generally operate in 'segregated mode', with arriving aircraft allocated to one runway and departing aircraft to the other. The airport is permitted to schedule up to 480,000 air transport movements per year and in 2014 its runways operated at 98.1% (2013: 97.8%) of their permitted capacity.

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

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

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

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

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

Management review

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

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

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

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

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

Strategic report *continued*

Management review *continued*

Review of the year continued

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

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

Passenger traffic

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

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

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

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

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

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

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

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

Service standards

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

Strategic report *continued*

Management review *continued*

Service standards continued

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

In relation to individual service standards, in 2014, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 78% (2013: 77%). Heathrow's baggage misconnect rate was 19 per 1,000 passengers (2013: 14), in part reflecting service interruptions to the baggage systems in the summer.

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

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

Terminal 2: The Queen's Terminal

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

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

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

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

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

Heathrow's business plan

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

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

Strategic report *continued*

Management review *continued*

Heathrow's business plan continued

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

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

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

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

Investing in Heathrow

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

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

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

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

Airports Commission

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

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

Strategic report *continued*

Management review *continued*

Airports Commission continued

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

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

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

Key management changes

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

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

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

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

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 presentation of financial results
Heathrow (SP) Limited ('Heathrow (SP)') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service (the 'Group'). The Group's statutory accounts and quarterly reports are now prepared under International Financial Reporting Standards ('IFRS').

As a result of the Financial Reporting Council's on-going project to harmonise accounting standards in the UK, from 1 January 2015, the previous UK accounting standards used for the preparation of the Heathrow (SP) consolidated accounts will be replaced by Financial Reporting Standard ('FRS') 100. This must be reflected in Heathrow (SP)'s reporting for the year ending 31 December 2015. As allowed by FRS 100, the Heathrow (SP) group has moved from reporting under UK GAAP to adopting full IFRS. In order to provide comparable historical financial information, restated financial information in accordance with IFRS has been provided. An reconciliation from UK GAAP to IFRS of the key audited financial statements is set out in Note 32 to the financial statements.

From 1 January 2014, retail income includes fees paid by retailers for secure logistics services provided at the airport, which were previously reported in other income. Retail income and other income in 2013 have been restated to provide appropriate comparisons. The fees totalled £4 million in each of the years to 31 December 2013 and 2014.

The income statement below provides more detailed disclosure than the statutory format on page 29 in order to enable a better understanding of the results of Heathrow's operations.

Summary performance
In the year ended 31 December 2014 the Group earned an operating profit before certain re-measurements of £793 million (2013: £871 million) and a loss after tax of £95 million (2013: £775 million profit).

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Group revenue - continuing operations	**2,692**	2,474
Adjusted operating costs - continuing operations[1]	**(1,125)**	(1,053)
Adjusted EBITDA - continuing operations[2]	**1,567**	1,421
Exceptional items	**(202)**	(104)
Depreciation and amortisation	**(572)**	(446)
Operating profit before certain re-measurements	**793**	871
Fair value gain on investment properties (certain re-measurements)	**46**	62
Operating profit	**839**	933
Net finance costs before certain re-measurements	**(804)**	(650)
Fair value loss on financial instruments	**(154)**	(81)
Net finance costs	**(958)**	(731)
(Loss)/profit on ordinary activities before taxation	**(119)**	202
Tax credit on profit on ordinary activities	**21**	117
(Loss)/profit on ordinary activities after taxation	**(98)**	319
Profit on discontinued operations	**3**	456
Consolidated (loss)/profit for the year	**(95)**	775

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

Strategic report *continued*

Financial review *continued*

Revenue

In the year ended 31 December 2014, Heathrow's revenue increased 8.8% to £2,692 million (2013: 2,474 million).

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Aeronautical income	**1,706**	1,523	12.0
Retail income	**503**	491	2.4
Other income	**483**	460	5.0
Total revenue	**2,692**	2,474	8.8

Aeronautical income

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

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

Retail income

In the year ended 31 December 2014, Heathrow's retail income increased 2.4% to £503 million (2013: £491 million). Net retail income ('NRI') grew 3.0% to £479 million (2013: £465 million) and NRI per passenger rose 1.5% to £6.53 (2013: £6.43).

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

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

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

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

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

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

Other income

In the year ended 31 December 2014, other income totalled £483 million (2013: £460 million), the increase was driven by increased demand for Heathrow's VIP service, together with growth in utility charges and higher property rental income following the opening of Terminal 2.

Strategic report *continued*

Financial review *continued*

Adjusted operating costs
Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the year ended 31 December 2014, adjusted operating costs increased 6.8% to £1,125 million (2013: £1,053 million).

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Employment costs	**391**	392	(0.3)
Maintenance expenditure	**178**	164	8.5
Utility costs	**95**	85	11.8
Rent and rates	**132**	116	13.8
General expenses	**305**	270	13.0
Retail expenditure	**24**	26	(7.7)
Total	**1,125**	1,053	6.8

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

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

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

The £35 million increase in general expenses reflects a number of factors, including £7 million of costs associated with operating Terminal 2. In aggregate around £17 million relates to activities to win approval for expansion of Heathrow; increased spend on insulation for residents impacted by noise; operational readiness activities in preparation for the start of Terminal 3 Integrated baggage facility and general inflation. In addition, following the sale of the regional airports in December, around £5 million of corporate centre cost has been consolidated into Heathrow operating expenses.

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

Adjusted EBITDA
In the year ended 31 December 2014, Adjusted EBITDA increased 10.3% to £1,567 million (2013: £1,421 million), resulting in an Adjusted EBITDA margin of 58% (2013: 57%). The increase in Adjusted EBITDA principally reflects the increase in aeronautical income.

Strategic report *continued*

Financial review *continued*

Operating profit
The Group recorded an operating profit before certain re-measurements for the year ended 31 December 2014 of £793 million (2013: £871 million). A reconciliation of Adjusted EBITDA and operating profit before certain re-measurements is provided below.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Adjusted EBITDA	**1,567**	1,421	10.3
Depreciation	**(572)**	(446)	28.3
Exceptional items	**(202)**	(104)	n.m.
Operating profit before certain re-measurements	**793**	871	(9.0)

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

Exceptional items
In the year ended 31 December 2014, there was an exceptional pre-tax charge of £202 million (2013: £104 million) to the income statement.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Pension	**(176)**	(66)
Restructure	**(8)**	(22)
Terminal 2 operational readiness	**(18)**	(16)
Exceptional pre-tax charge	**(202)**	(104)

The £176 million non-cash pension charge (2013: £66 million) relates to the Group's share of the actuarial losses under the Heathrow Airport Holdings Limited group's ('HAH Group') pension schemes since 31 December 2013.

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

Taxation
The tax credit for the year ended 31 December 2014 results in an effective tax rate of 17.6%, reflecting the tax credit arising on ordinary activities of £21 million based on a loss before tax of £119 million. The effective tax rate for the period differs from the UK statutory rate of corporation tax of 21.5% primarily due to permanent differences mainly arising from non-qualifying depreciation, non-deductible expenses and the release of a provision.

The tax credit for the year ended 31 December 2013 resulted in an effective tax rate of negative 57.9%, reflecting the tax credit arising of £117 million based on a profit before tax of £202 million.

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result, the Group's deferred tax balances, which were provided at 23% at 1 January 2013, were re-measured at the rate of 20% in the year ended 31 December 2013. For the year ended 31 December 2013, this resulted in a reduction in the net deferred tax liability of £141 million, with £152 million credited to the income statement and £11 million charged to equity.

Excluding the impact of the change in tax rate, the tax charge recognised for the year ended 31 December 2013 of £35 million resulted in an effective tax rate of 17.3%. The tax charge was less than implied by the statutory rate of 23.25% primarily due to non-taxable income.

Strategic report *continued*

Financial review *continued*

Summary cash flow

In the year ended 31 December 2014 the Group increased cash and cash equivalents by £172 million, compared with an increase in 2013 of £56 million. On 31 December 2014, the Group had £266 million of cash and cash equivalents compared with £94 million on 31 December 2013.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Cash generated from continuing operations	**1,525**	1,403
Net cash from operating activities	**1,506**	1,380
Purchase of property, plant and equipment and other assets	**(853)**	(1,285)
Proceeds on disposal of property, plant and equipment	**-**	4
Increase in term deposits	**(170)**	-
Disposal of Stansted airport	**(2)**	1,406
Net cash (used in)/from investing activities	**(1,025)**	125
Dividends paid	**(445)**	(661)
Proceeds from issuance/(repayment) of bonds, term note, facilities and other financing items	**809**	135
Net repayment of revolving credit facilities	**(80)**	(227)
Increase in amount owed to Heathrow Finance plc	**165**	4
Cancellation and restructuring of derivatives	**-**	(2)
Settlement of accretion on index-linked swaps	**(185)**	(177)
Net interest paid	**(573)**	(521)
Net cash used in financing activities	**(309)**	(1,449)
Net increase in cash and cash equivalents	**172**	56

Cash flow from operating activities

Net cash flow from continuing operations in the year ended 31 December 2014 increased 8.3% to £1,525 million (2013 continuing operations: £1,403 million) which compares with Adjusted EBITDA of £1,567 million (2013: £1,421 million).

Capital expenditure

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

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

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

Restricted payments/dividends

In the year ended 31 December 2014, restricted payments of £500 million were made by the Group which funded £261 million of the £270 million in quarterly dividends paid to the Group's ultimate shareholders; £33 million of interest payments at ADI Finance 2 Limited and £55 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance. The restricted payments made by the Group in the year also funded a further £135 million distributed to shareholders in December 2014, making Heathrow's capital structure broadly consistent with its medium term target. The balance of the restricted payments is reflected in the cash held at Heathrow Finance at year end. (2013: £716 million including £176 million in quarterly dividends; £219 million related to interest payments on debt at Heathrow Finance and ADI Finance 1 Limited and rebalancing of debt at different levels of the Heathrow Airport Holdings Limited group's ('HAH Group') capital structure; and £300 million related to the sale of Stansted).

Pension scheme

At 31 December 2014, the HAH Group defined benefit pension scheme deficit was £199 million (2013: £93 million) as measured under IAS19(R). The majority of the increase in the deficit is due to a reduction in the discount rate applied to the defined benefit scheme obligation, as well as the impact of aligning mortality assumptions with the basis of the latest triennial valuation. These increases were partially offset by asset returns. A smaller proportion of the increase relates to the disposal of the HAH Group's regional airports in December 2014, which resulted in a transfer of their share of the deficit into the Group.

Strategic report *continued*

Financial review *continued*

Pension scheme *continued*

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

Recent financing activity

The focus of the Group's financing activities through 2014 was to take advantage of attractive financing market conditions to optimise the Group's long-term cost of debt and extend its debt maturity profile. During 2014, the Group successfully closed nine term debt financing transactions, raising £1.5 billion. Through the year Heathrow also repaid external debt, comprising primarily a €750 million (£513 million) bond maturity on 30 September and a net £119 million reduction in loan drawings.

Two public fixed rate bonds raised close to £1 billion. The first of which was issued in May, a €600 million, 8 year bond with a coupon of 1.875% payable annually, successfully extending Heathrow's maturity profile in the Euro market. In June, a C$450 million, 7 year bond was issued with a coupon of 3.0% payable semi-annually, establishing Heathrow as a repeat issuer in the Canadian bond market.

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

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

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

Net debt and liquidity

The analysis below focuses on the Group's external debt and excludes the debenture between Heathrow (SP) and its parent company, Heathrow Finance. It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

The Group's nominal net debt increased 3.4% from £11,264 million at 31 December 2013 to £11,653 million at 31 December 2014 and comprised £11,402 million under bond issues, £276 million in term debt, £411 million in index-linked derivative accretion and cash at bank and term deposits of £436 million. Nominal net debt comprised £10,098 million in senior net debt and £1,555 million in junior debt.

The accounting value (which includes £438 million of cash and cash equivalents and term deposits reflected in the statement of financial position) of the Group's net debt excluding accrued interest was £11,064 million at 31 December 2014 (2013: £10,712 million).

The average cost of the Group's external gross debt at 31 December 2014 was 4.59% (2013: 4.53%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2014 was 5.70% (2013: 6.01%). The reduction in the average cost of debt since the end of 2013 is mainly due to lower inflation at the end of 2014.

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

Strategic report *continued*

Financial review *continued*

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

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

Net finance costs and net interest paid
In the year ended 31 December 2014, the Group's net finance costs before certain re-measurements, from continuing operations, were £804 million (2013: £650 million) and net interest paid was £573 million (2013: £521 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Net finance costs before certain re-measurements	**804**	650
Amortisation of financing fees and fair value adjustments	**(49)**	(36)
Amortisation on bond redemption	**(62)**	-
Borrowing costs capitalised	**89**	164
Underlying net finance costs	**782**	778
Non-cash accretion on index-linked instruments	**(159)**	(202)
Other movements	**(50)**	(55)
Net interest paid	**573**	521

Underlying net finance costs were £782 million (2013: £778 million) after adjusting for capitalised borrowing costs of £89 million (2013: £164 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £111 million (2013: £36 million).

Within net finance costs before certain re-measurements is a one-off non-cash amortisation charge of £61 million, recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedging relationship.

Net interest paid in the year was £573 million (2013: £521 million) of which £518 million (2013: £466 million) related to external debt. The remaining £55 million (2013: £55 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

Net interest paid is lower than underlying net finance costs primarily due to a £159 million (2013: £202 million) non-cash charge relating to accretion on index-linked instruments.

Financial ratios
The Group continues to operate comfortably within required financial ratios.

At 31 December 2014, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 68.0% and 78.4% respectively (2013: 67.6% and 77.2% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements.

In the year ended 31 December 2014, 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 2.98x and 2.43x respectively (2013: 3.08x and 2.43x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. In 2013 and 2014 there were exceptional cash costs of £16 million and £18 million respectively.

Strategic report *continued*

Financial review *continued*

Outlook

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

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

Leadership and Governance

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

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

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

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

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

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

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

The Nomination Committee is a sub-committee of the Heathrow Airport Holdings Limited Board of Directors.

The Committee:

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

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

The Remuneration Committee is a sub-committee of the Board of Directors of Heathrow Airport Holdings Limited.

Subject to any Decisions of the Committee and the Shareholders' Agreement, the Committee's specific responsibilities include the approval of:

- the remuneration policy of the members of the Executive Committee and Senior Managers;
- the compensation packages of the members of the Executive Committee (other than the CEO) including salary, bonus, pensions and other incentive compensation;
- the contractual terms for the members of the Executive Committee and independent Non-Executive Directors;
- the design and terms of bonus plans including approval of off-cycle bonus payment outside bonus guidelines including sign on, retention and guaranteed bonuses;
- the design and terms of long term incentive plans; and
- succession planning for the members of the Executive Committee.

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

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

Leadership and Governance *continued*

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

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

The Committee is required to give approval to various matters relating to the Group's debt financing arrangements prior to their implementation. These include any repayments of principal in addition to scheduled principal payments on any debt; creation of new security interests; any entering into or material change, amendment or variation to any material financing arrangement; and the refinancing of any material existing indebtedness. In addition, the Committee is required to approve prior to its issue any prospectus or other listing document required in relation to the issuance of any capital markets instruments or any formal information memorandum in relation to borrowing by any member of the Group.

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

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

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

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

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

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

Internal controls and risk management

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

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

The key features of the Group's internal control and risk management systems in relation to the financial reporting process include:

- a group-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- AC review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items
    - compliance with accounting, legal, regulatory and lending requirements
    - critical accounting policies and the going concern assumption
    - significant areas of judgement;
- independent review of controls by the Internal Audit function, reporting to the AC; and
- a confidential whistleblowing process.

Risk management

The principal risks identified by the Executive Committee are:

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

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

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

Internal controls and risk management *continued*

Risk management *continued*
Strategy, regulation and competition
Heathrow airport is operating its' runways at close to full capacity and failure to secure necessary planning permissions could lead to increased congestion, passenger delay and lack of opportunity for the UK.

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

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

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

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

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

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

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

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

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

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

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

Internal controls and risk management *continued*

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

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

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

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

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

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

(a) Interest rates
The Group maintains a mix of fixed and floating rate debt. As at 31 December 2014, fixed rate debt after hedging with derivatives represented 97% 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 has positive cash flows after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2016. As at 31 December 2014, cash and cash equivalents and term deposits were £436 million, undrawn headroom under revolving credit facilities was £1,525 million and undrawn headroom under liquidity facilities was £750 million.

Internal controls and risk management *continued*

Risk management *continued*
Financial stability continued

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

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

On behalf of the Board

José Leo
Director

20 February 2015

Heathrow (SP) Limited

Directors' report

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

Principal activities
The principal activity of Heathrow (SP) Limited is as the holding company of Heathrow (AH) Limited and the owner of Heathrow airport and Heathrow Funding Limited, the bond issuer 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 loss after taxation for the financial year amounted to £95 million (2013: £775 million profit; 2012: £141 million profit).

Dividends of £445 million were paid during the year (2013: £661 million; 2012: £436 million). The Company made quarterly dividends of £261 million to fund dividends to its ultimate shareholders, as well as a further £135 million distributed to shareholders in December 2014.The remaining £49 million related principally to the servicing of external debt at the Company's 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 are as follows:

José Leo
Andrew Efiong

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.

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

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

The Group had 7 days purchases outstanding at 31 December 2014 (2013: 17 days; 2012: 7 days) based on the average daily amount invoiced by suppliers during the year.

Directors' report *continued*

Donations

The charitable donations the Group is required to disclose for the year amounted to £2 million (2013: £2 million; 2012: £1 million). The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows:

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

Internal controls and risk management

The 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 and 23 in the Internal controls and risk management section of the Strategic report.

Subsequent events

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

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

Directors' indemnity

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

Auditor

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

Directors' report *continued*

Statement of disclosure of information to the Auditor

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

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

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

On behalf of the Board

José Leo
Director

20 February 2015

Company registration number: 06458621

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the Group financial statements, International Accounting Standard ('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.

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the 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

José Leo
Director

20 February 2015

Heathrow (SP) Limited

Independent auditor's report to the members of Heathrow (SP) Limited

We have audited the Group financial statements of Heathrow (SP) Limited for the years ended 31 December 2014, 2013 and 2012 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 2014, 2013 and 2012 and of its loss or profit for the years 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 (SP) Limited for the year ended 31 December 2014.

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

20 February 2015

Heathrow (SP) Limited

Consolidated income statement for the year ended 31 December 2014

	Note	2014 Before certain re-measurements £m	2014 Certain re-measurements[1] £m	2014 Total £m	2013 Before certain re-measurements £m	2013 Certain re-measurements[1] £m	2013 Total £m	2012 Before certain re-measurements £m	2012 Certain re-measurements[1] £m	2012 Total £m
Continuing operations										
Revenue	*1*	**2,692**	**-**	**2,692**	2,474	-	2,474	2,222	-	2,222
Operating costs	*2*	**(1,899)**	**-**	**(1,899)**	(1,603)	-	(1,603)	(1,677)	-	(1,677)
Other operating items										
Fair value gain on investment properties	*8*	**-**	**46**	**46**	-	62	62	-	50	50
Operating profit		**793**	**46**	**839**	871	62	933	545	50	595
Analysed as:										
Operating profit before exceptional items		**995**	**46**	**1,041**	975	62	1,037	687	50	737
Exceptional items	*3*	**(202)**	**-**	**(202)**	(104)	-	(104)	(142)	-	(142)
Exceptional impairment	*3*	**-**	**-**	**-**	-	-	-	(5)	-	(5)
Financing										
Finance income		**234**	**-**	**234**	229	-	229	253	-	253
Finance costs		**(1,038)**	**-**	**(1,038)**	(879)	-	(879)	(942)	-	(942)
Fair value (loss)/gain on financial instruments		**-**	**(154)**	**(154)**	-	(81)	(81)	-	108	108
	4	**(804)**	**(154)**	**(958)**	(650)	(81)	(731)	(689)	108	(581)
(Loss)/profit before tax		**(11)**	**(108)**	**(119)**	221	(19)	202	(149)	158	9
Taxation before change in tax rate		**7**	**14**	**21**	(17)	(18)	(35)	14	(7)	7
Change in tax rate		**-**	**-**	**-**	134	18	152	90	15	105
Taxation	*5*	**7**	**14**	**21**	117	-	117	104	8	112
(Loss)/profit for the year from continuing operations[2]		**(4)**	**(94)**	**(98)**	338	(19)	319	(45)	166	121
Profit/(loss) from discontinued operations[2,3]	*6*	**3**	**-**	**3**	456	-	456	40	(20)	20
Consolidated (loss)/profit for the year[2]		**(1)**	**(94)**	**(95)**	794	(19)	775	(5)	146	141

1 Certain re-measurements consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and the associated tax impact of these and similar cumulative prior year items.
2 Attributable to owners of the parent.
3 Represents the results and profit on disposal of Stansted airport (Note 6).

Heathrow (SP) Limited

Consolidated statement of comprehensive income for the year ended 31 December 2014

	Note	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
(Loss)/profit for the year		**(95)**	775	141
Items that will not be subsequently reclassified to the consolidated income statement:				
Change in tax rate	*16, 25*	**-**	(11)	(6)
Tax relating to retirement benefits		**(4)**	-	-
Tax relating to indexation of operating land	*16, 25*	**1**	1	2
Items that may be subsequently reclassified to the consolidated income statement:				
Cash flow hedges:				
(Losses)/gains taken to equity	*25*	**(174)**	173	(287)
Transferred to income statement	*25*	**163**	(10)	239
Other comprehensive (loss)/income for the year net of tax		**(14)**	153	(52)
Total comprehensive (loss)/income for the year		**(109)**	928	89
Attributable to owners of the parent		**(109)**	928	89

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

Heathrow (SP) Limited

Consolidated statement of financial position as at 31 December 2014

	Note	**31 December 2014 £m**	31 December 2013 £m	31 December 2012 £m
Assets				
Non-current assets				
Property, plant and equipment	*7*	**11,349**	11,201	10,222
Investment properties	*8*	**2,054**	1,918	1,815
Intangible assets	*9*	**114**	107	77
Derivative financial instruments	*14*	**172**	165	306
Trade and other receivables	*11*	**23**	37	25
		13,712	13,428	12,445
Current assets				
Inventories	*10*	**10**	9	7
Trade and other receivables	*11*	**460**	315	254
Current income tax assets		**18**	-	-
Derivative financial instruments	*14*	**2**	135	-
Cash and cash equivalents	*12*	**268**	94	36
		758	553	297
Assets classified as held-for-sale	*20*	**-**	-	1,286
Total assets		**14,470**	13,981	14,028
Liabilities				
Non-current liabilities				
Borrowings	*13*	**(11,877)**	(11,073)	(11,329)
Derivative financial instruments	*14*	**(1,328)**	(1,137)	(1,094)
Deferred income tax liabilities	*16*	**(1,023)**	(1,028)	(1,116)
Provisions	*18*	**(10)**	(12)	(5)
Trade and other payables	*19*	**(2)**	(3)	(4)
		(14,240)	(13,253)	(13,548)
Current liabilities				
Borrowings	*13*	**(933)**	(872)	(718)
Derivative financial instruments	*14*	**(1)**	(2)	(39)
Provisions	*18*	**(232)**	(115)	(97)
Current income tax liabilities		**-**	(14)	(20)
Trade and other payables	*19*	**(454)**	(561)	(450)
		(1,620)	(1,564)	(1,324)
Liabilities associated with assets classified as held-for-sale	*20*	**-**	-	(259)
Total liabilities		**(15,860)**	(14,817)	(15,131)
Net liabilities		**(1,390)**	(836)	(1,103)
Equity				
Capital and reserves				
Share capital	*21*	**11**	11	11
Share premium	*21*	**499**	499	499
Merger reserve	*23*	**(3,758)**	(3,758)	(4,536)
Cash flow hedge reserve	*24*	**(321)**	(310)	(455)
Retained earnings	*26*	**2,179**	2,722	3,378
Total shareholder's equity		**(1,390)**	(836)	(1,103)

These financial statements of Heathrow (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 20 February 2015. They were signed on its behalf by:

José Leo
Director

Andrew Efiong
Director

Heathrow (SP) Limited

Consolidated statement of changes in equity for the year ended 31 December 2014

		Attributable to owners of the Company					
	Note	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
1 January 2012		11	499	(4,536)	(396)	3,666	(756)
Comprehensive income:							
Profit for the year		-	-	-	-	141	141
Other comprehensive income:							
Fair value losses on cash flow hedges net of tax		-	-	-	(48)	-	(48)
Change in tax rate	*16*	-	-	-	(11)	5	(6)
Tax relating to indexation of operating land		-	-	-	-	2	2
Total comprehensive income		-	-	-	(59)	148	89
Transaction with owners:							
Dividends paid	*26*	-	-	-	-	(436)	(436)
Total transaction with owners		-	-	-	-	(436)	(436)
31 December 2012		11	499	(4,536)	(455)	3,378	(1,103)
Comprehensive income:							
Profit for the year		-	-	-	-	775	775
Other comprehensive income:							
Fair value gains on cash flow hedges net of tax		-	-	-	163	-	163
Change in tax rate	*16*	-	-	-	(18)	7	(11)
Tax relating to indexation of operating land		-	-	-	-	1	1
Realisation of merger reserve		-	-	778	-	(778)	-
Total comprehensive income		-	-	778	145	5	928
Transaction with owners:							
Dividends paid	*26*	-	-	-	-	(661)	(661)
Total transaction with owners		-	-	-	-	(661)	(661)
31 December 2013		**11**	**499**	**(3,758)**	**(310)**	**2,722**	**(836)**
Comprehensive income:							
Loss for the year		**-**	**-**	**-**	**-**	**(95)**	**(95)**
Other comprehensive income:							
Fair value losses on cash flow hedges net of tax	*24*	**-**	**-**	**-**	**(11)**	**-**	**(11)**
Tax relating to retirement benefits						**(4)**	**(4)**
Tax relating to indexation of operating land		**-**	**-**	**-**	**-**	**1**	**1**
Total comprehensive income		**-**	**-**	**-**	**(11)**	**(98)**	**(109)**
Transaction with owners:							
Dividends paid	*26*	**-**	**-**	**-**	**-**	**(445)**	**(445)**
Total transaction with owners		**-**	**-**	**-**	**-**	**(445)**	**(445)**
31 December 2014		**11**	**499**	**(3,758)**	**(321)**	**2,179**	**(1,390)**

Consolidated statement of cash flows for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Cash flows from operating activities				
Cash generated from continuing operations	*28*	**1,525**	1,403	1,080
Group relief paid		**(19)**	(28)	(28)
Cash generated from discontinued operations		**-**	5	84
Net cash from operating activities		**1,506**	1,380	1,136
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		**(744)**	(1,208)	(1,096)
Investment properties		**(78)**	(31)	(9)
Intangible assets		**(31)**	(46)	(37)
Proceeds on disposal of:				
Property, plant and equipment		**-**	4	-
Increase in term deposits		**(170)**	-	-
Disposal proceeds and investing activities of discontinued operations		**(2)**	1,406	(21)
Net cash (used in)/from investing activities		**(1,025)**	125	(1,163)
Cash flows from financing activities				
Dividends paid		**(445)**	(661)	(436)
Proceeds from issuance of bonds		**1,276**	745	3,082
Repayment of bonds		**(513)**	(396)	(680)
Issuance of term note		**100**	-	-
Drawdown of revolving credit facilities		**-**	80	307
Repayment of revolving credit facilities		**(80)**	(307)	(1,395)
Repayment of facilities and other financing items		**(54)**	(214)	(529)
Increase in amount owed to Heathrow Finance plc		**165**	4	270
Cancellation and restructuring of derivatives		**-**	(2)	(76)
Settlement of accretion on index-linked swaps		**(185)**	(177)	(80)
Interest paid		**(575)**	(523)	(410)
Interest received		**2**	2	-
Financing activities of discontinued operations		**-**	-	(21)
Net cash (used in)/from financing activities		**(309)**	(1,449)	32
Net increase in cash and cash equivalents		**172**	56	5
Cash and cash equivalents at beginning of year		**94**	38	33
Cash and cash equivalents at end of year	*12*	**266**	94	38
Represented by:				
Cash and cash equivalents – continuing operations		**268**	94	36
Cash and cash equivalents – discontinued operations		**-**	-	26
Overdrafts – continuing operations		**(2)**	-	(24)
Cash and cash equivalents at end of year	*12*	**266**	94	38

Accounting policies for the year ended 31 December 2014

The principal accounting policies applied in the preparation of these financial statements of Heathrow (SP) 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 (SP) 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 have been prepared for the first time 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, 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.

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, as part of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group'), has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the Heathrow Airport Holdings Group, the level at which financial risks are managed for the Company.

Consequently the directors have reviewed the cash flow projections of the Heathrow Airport Holdings Group taking into account:
- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Heathrow Airport Holdings 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 and Note 15).

Whilst the Group is in a net liability and 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.

Transition to IFRS
The consolidated financial statements were prepared by the directors in accordance with IFRS for the first time. The Group has early-adopted IFRS with a transition date of 1 January 2012. The previous financial reporting framework was United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). IFRS 1 'First-time Adoption of International Financial Reporting Standards' grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to IFRS. An explanation of these and how the transition affected the previously reported financial position and financial performance of the Group is disclosed in Note 32.

The Company accounts are stated under UK GAAP.

Changes in accounting policies and disclosures
(a) Amended standards adopted by the Group
In general, for the first-time adoption of IFRS, the standards are applied retrospectively. However the Group has adopted the following standards and amendments in the financial statements from the effective dates noted below.

IFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement disclosure requirements for use across other IFRS. Adopted prospectively from 1 January 2012, this resulted in an additional £13 million charge recognised in profit and loss before tax for the year ended 31 December 2014 and £5 million charge recognised in profit and loss before tax for the year ended 31 December 2013.

Changes in accounting policies and disclosures *continued*

(a) Amended standards adopted by the Group continued

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

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

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

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

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

Standards

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers

Amendments

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRS 2010–2012 Cycle
- Annual Improvements to IFRS 2011–2013 Cycle
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

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 not allowed to account for regulatory deferral account balances under its previous GAAP. During 2015 the Group will review IFRS 15 to determine the impact (if any) on both revenue recognition and disclosure of contracts, although no material impact is expected.

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

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

i. fair value gains and losses on investment property revaluations and disposals;
ii. derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and
iii. the associated tax impacts of the items in (i) and (ii) above and similar cumulative prior year items.

Basis of consolidation

The Group financial statements consolidate the financial statements of Heathrow (SP) Limited and all its subsidiaries.

The Group was formed in 2008 as part of a wider Heathrow Airport Holdings Group refinancing and group reconstruction. In 2008 the Company acquired Heathrow (AH) Limited, which now owns the UK regulated airport Heathrow. The Group also operates the Heathrow Express rail service between Heathrow and Paddington, London. Heathrow (SP) Limited is the holding company of Heathrow Funding Limited, which is the bond issuer for the Group.

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's return.

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

Accounting policies for the year ended 31 December 2014 *continued*

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

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 a combination of weight and time parked as provided.
- Other charges levied for passenger and baggage operations when these services are rendered.

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

Property and operational facilities
- Property letting rentals recognised on a straight-line basis over the term of the rental period.
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale.
- Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided.
- Other invoiced sales, recognised on the performance of the service.

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

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

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

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

Changes to provisions to recognise the Group's liability to fund the LHR Airports Limited defined benefit pension scheme deficit and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities under the Shared Services Agreement are also treated as an exceptional item. Refer to the Shared Services Agreement accounting policy.

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

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.

Accounting policies for the year ended 31 December 2014 *continued*

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. Such capitalised interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

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

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

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

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

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

The deemed cost of certain operational land on transition to IFRS has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Group occupied assets and included the terminals and airfields. It did not relate to land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. CBRE Limited, Chartered Surveyors, were appointed by the Board to perform this valuation on behalf of the Group which was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence. This resulted in a one-off valuation uplift in the value of airfield assets of £360 million. Further details are provided in Note 32.

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:

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years

Accounting policies for the year ended 31 December 2014 *continued*

Property, plant and equipment *continued*
Depreciation continued

Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Other land and buildings	
Short leasehold properties	Over period of lease
Leasehold improvements	Lower of useful economic life or period of lease

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

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

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

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

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

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.

Accounting policies for the year ended 31 December 2014 *continued*

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

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

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

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

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

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.

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. Short-term deposits with an original maturity of over three months are shown within current trade and other receivables.

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

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

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

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

Accounting policies for the year ended 31 December 2014 *continued*

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.

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 with a maturity date 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.

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.

Financial instruments *continued*

Derivative financial instruments and hedging activities continued

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.

Novations of financial instruments

Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group') are transferred at fair value prevailing on that date.

Fair value hedge

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

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

Cash flow hedge

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

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

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

Derivatives at fair value through the income statement

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

When derivatives are designated in a 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. Where material, the credit risk associated with the Group's derivatives is reflected in its derivative valuations. This credit factor is adjusted over time to reflect the reducing tenor of the instrument and is updated where the credit associated with the derivative has clearly changed based on market transactions and prices.

Net debt

Comprises the Group's external consolidated borrowings, excluding interest accruals, net of cash and cash equivalents and term deposits.

Accounting policies for the year ended 31 December 2014 *continued*

Shared Services Agreement ('SSA')
All employees of the Group are employed by LHR Airports Limited with the exception of non-senior management at Heathrow Express Operating Company Limited. LHR Airports Limited grants all employee benefits and sponsors the defined benefit pension schemes while Heathrow Airport Limited incurs any staff related costs.

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

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

Corporate and centralised services
During 2013, LHR Airports Limited transferred various central services to Heathrow Airport Limited such as IT applications, general business services, procurement and financial accounting. Under the new structure, costs previously incurred by LHR Airports Limited were borne by Heathrow Airport Limited and the element relating to airports other than Heathrow were subsequently recharged to LHR Airports Limited with a mark up of 7.5% consistent with the SSA. LHR Airports Limited then recharge the other airports without a mark up. This change in methodology is allowed under the SSA which permits any of the operating companies to perform all or any portion of the Centralised Airport Services or Corporate Services.

Pension costs
Under the SSA the current period service cost for the LHR Airports Limited defined benefit pension schemes are recharged to Heathrow Airport Limited ('HAL') and Heathrow Express Operating Company Limited ('HEX') on the basis of their pensionable salaries. This charge is included within Operating costs. Cash contributions are made directly by HAL and HEX to the LHR Airports Limited defined benefit pension schemes on behalf of LHR Airports Limited.

Since August 2008, HAL and HEX have had an obligation under the SSA to fund or benefit from their share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities. These provisions or assets are based on the relevant share of the actuarial deficit or surplus and allocated on the basis of pensionable salaries. Movements in these provisions or assets are recorded as exceptional items due to their size.

As more than one employer participates in the LHR Airports Limited defined benefit pension scheme and each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the Group accounts for the scheme in accordance with the SSA. Additionally the Group discloses information about the total scheme surplus or deficit.

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

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

Deferred income 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.

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

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs allowing for any 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.

Accounting policies for the year ended 31 December 2014 *continued*

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

Foreign currency
Items included in the financial statements of 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.

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

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 accounting policies

Investment properties
Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors. The valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 80% (2013: 83%; 2012: 79%) 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 100% of the investment properties. Strutt & Parker, Chartered Surveyors were used in addition to CBRE Limited in 2012 and were responsible solely for the valuation of residential property and agricultural land at Stansted airport.

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 for pension schemes is reflected in the exceptional items-pension line in the income statement.

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

Transition to IFRS
The transition to IFRS requires management to make judgements and estimates in relation to the elections that are available in IFRS 1. In particular, the deemed cost of certain operational land on transition to IFRS has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Group occupied assets and included the terminals and airfields. It did not relate to land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence.

The following special assumptions have been made by CBRE Limited in determining the fair value of operational land as at 1 January 2012:

- Gross area of 1,895 acres.
- All the land is held freehold.
- The valuation is only of the operational land and not the land underneath the investment assets. The valuation assumes that the site will be developed as a whole and that the land underneath the investment assets will be included within any development proposal, even if CBRE Limited hasn't attributed any value to it. CBRE Limited has specifically assumed that the owner of the investment assets cannot frustrate the envisaged major development.
- That good ground conditions exist.
- That the site has been cleared of all the current developments located across it and demolition costs have been excluded. This includes any of the underground structures such as the fuel pipes that currently pass under the airport. This is on the basis that CBRE Limited has been instructed to value the operational land and this would specifically include any developments on that land.
- That the site does not have any abnormal levels of contamination. In the infrastructure costs that have been adopted, there is an allowance for dealing with low level contamination but the value specifically excludes any abnormal levels of contamination that would be over and above this level, having regard to the proposed redevelopment of the site for a mixed use.

For deferred tax purposes operational land has been treated as one asset. The deferred tax liability has been calculated as the fair value less the indexed base cost. Further details are provided in Note 32.

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

Critical judgements in applying the group accounting policies *continued*
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 readiness activities where judgement is exercised to determine costs that are directly attributable to the assets under construction.

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 existing liabilities and forecast transactions. This is based on management's expectation that it is highly probable that future Sterling funding issuances will be used to refinance existing debt. As at 31 December 2014, £410 million of fair value losses (2013: £418 million; 2012: £582 million) on these derivatives have been deferred into the cash flow hedge reserve.

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

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

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

1 Segment information

As described in the accounting policies on page 35, the Group's operating segments are Heathrow and Heathrow Express.

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

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

The performance of Stansted airport, which was classified as held-for-sale in 2012 and sold in February 2013, is distinguished from the performance of continuing Group operations through its classification as discontinued operations.

Table (a) details total revenue from external customers for the year ended 31 December 2014 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis.

Table (b) and table (c) detail comparative information to table (a) for the year ended 31 December 2013 and year ended 31 December 2012 respectively.

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

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

Table (a)	**Segment revenue**					**EBITDA**		
Year ended 31 December 2014	**Aero-nautical**	**Retail**	**Property & facilities**	**Other**	**Total external revenue**	**Pre exceptional adjusted EBITDA[1]**	**Operating exceptional items**	**Post exceptional items**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Heathrow	**1,706**	**503**	**285**	**69**	**2,563**	**1,493**	**(202)**	**1,291**
Heathrow Express	**-**	**-**	**-**	**129**	**129**	**74**	**-**	**74**
Continuing operations	**1,706**	**503**	**285**	**198**	**2,692**	**1,567**	**(202)**	**1,365**
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation *(Table (d))*								**(572)**
Operating profit (before certain re-measurements)								**793**
Fair value gain on investment properties (certain re-measurements)								**46**
Operating profit								**839**
Finance income								**234**
Finance costs								**(1,038)**
Fair value loss on financial instruments (certain re-measurements)								**(154)**
Loss before tax								**(119)**
Taxation before certain re-measurements								**7**
Taxation (certain re-measurements)								**14**
Taxation								**21**
Loss for the year – continuing operations								**(98)**
Profit from discontinued operations								**3**
Consolidated loss for the year								**(95)**

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

Revenue of approximately £877 million (2013: £729 million; 2012: £693 million) was derived from a single external customer and is primarily included within the Heathrow segment.

1 Segment information continued

Table (b)	Segment revenue					EBITDA (Restated)[1]		
Year ended 31 December 2013	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional adjusted EBITDA[2] £m	Operating exceptional items £m	Post exceptional items £m
Heathrow	1,523	491	269	67	2,350	1,348	(104)	1,244
Heathrow Express	-	-	-	124	124	73	-	73
Continuing operations	1,523	491	269	191	2,474	1,421	(104)	1,317
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation *(Table (d))*								(446)
Operating profit (before certain re-measurements)								871
Fair value gain on investment properties (certain re-measurements)								62
Operating profit								933
Finance income								229
Finance costs								(879)
Fair value loss on financial instruments (certain re-measurements)								(81)
Profit before tax								202
Taxation before certain re-measurements								117
Taxation (certain re-measurements)								-
Taxation								117
Profit for the year – continuing operations								319
Profit from discontinued operations *(Note 6)*								456
Consolidated profit for the year								775

[1] EBITDA has been restated to be consistent with the year ended 31 December 2014.
[2] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.

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

1 Segment information continued

Table (c)	Segment revenue					EBITDA (Restated)[1]		
Year ended 31 December 2012	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional adjusted EBITDA[2] £m	Operating exceptional items £m	Post exceptional items £m
Heathrow	1,280	460	266	100	2,106	1,091	(142)	949
Heathrow Express	-	-	-	116	116	66	-	66
Continuing operations	1,280	460	266	216	2,222	1,157	(142)	1,015
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation *(Table (d))*								(470)
Operating profit (before certain re-measurements)								545
Fair value gain on investment properties (certain re-measurements)								50
Operating profit								595
Exceptional impairment								(5)
Finance income								253
Finance costs								(942)
Fair value gain on financial instruments (certain re-measurements)								108
Profit before tax								9
Taxation before certain re-measurements								104
Taxation (certain re-measurements)								8
Taxation								112
Profit for the year – continuing operations								121
Profit from discontinued operations *(Note 6)*								20
Consolidated profit for the year								141

[1] EBITDA has been restated to be consistent with the year ended 31 December 2014.
[2] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.

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

1 Segment information continued

Table (d)

	Year ended 31 December 2014			Year ended 31 December 2013			Year ended 31 December 2012		
	Depreciation & amortisation[1] £m	Fair value gain[2] £m	Profit on disposal £m	Depreciation & amortisation[1] £m	Fair value gain[2] £m	Profit on disposal £m	Depreciation & amortisation[1] £m	Fair value gain/(loss)[2] £m	Profit on disposal £m
Heathrow	**(529)**	**46**	**-**	(405)	62	-	(429)	50	-
Heathrow Express	**(43)**	**-**	**-**	(41)	-	-	(41)	-	-
Continuing operations	**(572)**	**46**	**-**	(446)	62	-	(470)	50	-
Discontinued operations	**-**	**-**	**3**	-	-	456	(27)	(9)	-
Total	**(572)**	**46**	**3**	(446)	62	456	(497)	41	-

1 Includes intangible amortisation charge of £24 million (2013: £19 million; 2012: £13 million).
2 Reflects fair value gains and losses on investment properties only.

Table (e)

	31 December 2014			31 December 2013			31 December 2012		
	Assets[1] £m	Liabilities £m	Capital expenditure[2] £m	Assets[1] £m	Liabilities £m	Capital expenditure[2] £m	Assets[1] £m	Liabilities £m	Capital expenditure[2] £m
Heathrow	**13,008**	**(627)**	**716**	12,524	(594)	1,309	11,376	(513)	1,144
Heathrow Express	**990**	**(8)**	**12**	1,023	(6)	11	1,012	(5)	16
	13,998	**(635)**	**728**	13,547	(600)	1,320	12,388	(518)	1,160
Other operations	**-**	**-**	**-**	-	(5)	-	-	(20)	-
Discontinued operations[3]	**-**	**-**	**-**	-	-	3	1,286	(259)	22
Total operations	**13,998**	**(635)**	**728**	13,547	(605)	1,323	13,674	(797)	1,182
Unallocated assets and liabilities:									
Cash and external borrowings	**268**	**(11,753)**		94	(11,056)		36	(11,162)	
Derivative financial instruments	**174**	**(1,329)**		300	(1,139)		306	(1,133)	
Taxation	**-**	**(1,005)**		-	(1,042)		-	(1,136)	
Amounts owed from/(to) group undertakings	**30**	**(1,138)**		40	(975)		12	(903)	
Total	**14,470**	**(15,860)**	**728**	13,981	(14,817)	1,323	14,028	(15,131)	1,182

1 Segment assets include primarily airport runways and facilities.
2 Capital expenditure excludes the impact of capital creditors.
3 Discontinued operations related to Stansted airport.

1 Segment information continued

(f) Revenue and non-current asset information by geographical segment

Heathrow (SP) Limited is domiciled in the UK. All revenue from external customers comes from the UK which for the year ended 31 December 2014 was £2,692 million (2013: £2,474 million; 2012: £2,222 million). The breakdown of the major components of total revenue from external customers is shown in tables (a), (b) and (c) above.

Non-current assets excluding derivative financial instruments were £13,540 million (2013: £13,263 million; 2012: £12,139 million). There were no non-current assets held outside the UK (2013: £nil; 2012: £nil).

2 Operating costs – continuing operations

Operating costs, including exceptional items, include the following.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Employment costs[1]			
Wages and salaries	**325**	332	241
Social security	**31**	32	23
Pensions	**60**	63	45
Exceptional pension charge	**176**	66	142
Contract and agency staff	**18**	24	7
Other staff related	**15**	27	10
	625	544	468
Depreciation and amortisation			
Property, plant and equipment	**548**	427	457
Intangible assets	**24**	19	13
	572	446	470
Other operating costs			
Maintenance expenditure	**196**	179	137
Utility costs	**100**	94	89
Rents and rates	**136**	123	128
General expenses	**286**	253	200
Retail expenditure	**25**	26	26
Police	**29**	29	29
Intra-group charges	**17**	11	158
	789	715	767
Own work capitalised	**(87)**	(102)	(28)
Total operating costs	**1,899**	1,603	1,677
Analysed as:			
Adjusted operating costs	**1,125**	1,053	1,065
Depreciation and amortisation	**572**	446	470
Exceptional costs[2]	**202**	104	142
Total operating costs	**1,899**	1,603	1,677

1 Employment costs include recharges from LHR Airports Limited for employee services to the Group. Refer to the SSA section in the Accounting policies.

2 Exceptional costs include a £176 million charge (2013: £66 million; 2012: £142 million) in relation to pensions and £26 million charge (2013: £38 million; 2012: £nil million) in relation to other items. Refer to Note 3.

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

2 Operating costs – continuing operations *continued*

Rentals under operating leases

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating costs include:			
Plant and machinery	**33**	30	27
Other	**17**	18	17
	50	48	44
Property lease and sub lease charges – minimum lease payments	**16**	18	17

From 1 January 2013 changes to the wider Heathrow group, including the disposal of Stansted airport, led to Heathrow incurring more of its operating costs directly, rather than through intra-group recharges. To enable a more meaningful comparison the cost items have also been presented below by their underlying nature after taking into account the changes to group recharges and capitalisation of certain cost items.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Employment costs	**391**	392	378
Maintenance expenditure	**178**	164	154
Utility costs	**95**	85	87
Rents and rates	**132**	116	124
General expenses	**305**	270	295
Retail expenditure	**24**	26	26
Profit on disposal of fixed assets	**-**	-	1
Total adjusted operating costs	**1,125**	1,053	1,065
Depreciation and amortisation	**572**	446	470
Exceptional costs (Note 3)	**202**	104	142
Total operating costs	**1,899**	1,603	1,677

Auditor's remuneration

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Fees payable to the Company's auditor for the audit of the Heathrow (SP) Limited group annual accounts			
Audit of the Company's subsidiaries, pursuant to legislation[1]	**0.4**	0.4	0.5
Total audit fees	**0.4**	0.4	0.5
Fees payable to the Company's auditor and their associates for other services specific to the Heathrow (SP) Limited group			
Audit related assurance services	**0.3**	0.3	0.2
Other tax services	**0.1**	0.1	-
Other assurance services	**0.2**	0.2	0.3
Total non-audit fees	**0.6**	0.6	0.5
Total fees	**1.0**	1.0	1.0

[1] Fees payable to the Company's auditors for the audit of the Company's annual accounts was £21,000 (2013: £21,000, 2012: £21,000).

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

2 Operating costs – continuing operations *continued*

Employee numbers

The Group has no employees other than the majority of HEX employees which in 2014 averaged 469 (2013: 444). Other staff engaged in the operation of the Group's airport are employed by LHR Airports Limited which bears the related staff costs and recharges all such costs directly to Heathrow. The average number of employees of LHR Airports Limited engaged in the Group's operations during the year was 6,441 (2013: 6,271).

Directors' remuneration

José Leo was a director of a number of companies within the Heathrow Airport Holdings Group during the year. His remuneration for the year ended 31 December 2014 was apportioned based on services provided to Heathrow Airport Holdings Limited (2013 and 2012: Heathrow Airport Holdings Limited) and is disclosed within its financial statements. Andrew Efiong was a director of a number of companies within the Heathrow Airport Holdings Group. He was paid by, but is not a director of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion his remuneration to other individual companies within the Group based on services provided.

During the year, none of the directors (2013: none; 2012: none) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2013: one; 2012: one) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2013: none; 2012: none) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group and no shares (2013: none; 2012: none) were received or became receivable under long term incentive plans.

3 Exceptional items

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Pension charge	**(176)**	(66)	(142)
Restructure	**(8)**	(22)	-
Terminal 2 operational readiness	**(18)**	(16)	-
Total operating exceptional items	**(202)**	(104)	(142)
Impairment of fixed assets (Note 7)	**-**	-	(5)
Taxation on exceptional items	**41**	22	34
Total exceptional items after tax	**(161)**	(82)	(113)

Pensions

The £176 million non-cash pension charge (2013: £66 million) relates to the Group's share of the actuarial losses under the Heathrow Airport Holdings Limited group's pension schemes since 31 December 2013.

Other

Costs associated with the Group's change programmes were £8 million (2013: £22 million; 2012: £nil). The charge relates to severance and pension payments associated with a restructuring programme carried out in 2013 and 2014.

Operational readiness costs of £18 million (2013: £16 million; 2012: £nil) are associated with managing the opening of Terminal 2 and were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its operational phase opening on 4 June 2014.

Impairment of fixed assets

In the year ended 31 December 2012, an impairment of £5 million was recognised at Heathrow as a result of a change in the expected future use of automated immigration systems in advance of their sale which was completed in 2013.

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

4 Financing – continuing operations

(a) Net finance costs before certain re-measurements

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Finance income				
Interest receivable on derivatives not in hedge relationship		**231**	227	250
Net pension finance income		**-**	-	3
Interest on deposits		**3**	2	-
		234	229	253
Finance costs				
Interest on borrowings:				
Bonds and related hedging instruments[1]		**(592)**	(575)	(568)
Bank loans and overdrafts and related hedging instruments		**(75)**	(103)	(108)
Amortisation on bond redemption[2]		**(62)**	-	-
Interest payable on derivatives not in hedge relationship[3]		**(323)**	(290)	(294)
Facility fees and other charges		**(14)**	(16)	(19)
Net pension finance costs		**(3)**	(3)	-
Interest on debenture payable to Heathrow Finance plc		**(57)**	(55)	(53)
Unwinding of discount on provisions		**(1)**	(1)	-
		(1,127)	(1,043)	(1,042)
Less: capitalised borrowing costs[4]	7	**89**	164	100
		(1,038)	(879)	(942)
Net finance costs before certain re-measurements		**(804)**	(650)	(689)

1 Includes accretion of £20 million (2013: £20 million; 2012: £18 million) on index-linked bonds.

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

3 Includes accretion of £139 million (2013: £182 million; 2012: £173 million) on index-linked swaps.

4 Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.87% (2013: 6.04%; 2012: 4.75%) to expenditure incurred on such assets.

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Interest rate swaps: ineffective portion of cash flow hedges	**3**	23	(6)
Interest rate swaps: not in hedge relationship	**(196)**	54	-
Index-linked swaps: not in hedge relationship[1]	**26**	(147)	109
Cross-currency swaps: ineffective portion of cash flow hedges	**9**	2	2
Cross-currency swaps: ineffective portion of fair value hedges	**3**	(14)	3
Fair value re-measurements of foreign exchange contracts and currency balances	**1**	1	-
Fair value (loss)/gain on financial instruments	**(154)**	(81)	108
Net finance costs	**(958)**	(731)	(581)

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

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

5 Taxation on continuing operations

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
UK corporation tax			
Current tax at 21.5% (2013: 23.25%; 2012: 24.5%)	**9**	(20)	(28)
Over/(under) provision in respect of prior years	**4**	(2)	3
Deferred tax			
Current year	**12**	(17)	30
Prior year	**(4)**	4	2
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**-**	152	105
Taxation credit for the year	**21**	117	112

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
(Loss)/profit before tax	**(119)**	202	9
Reconciliation of the tax credit			
Tax calculated at the UK statutory rate of 21.5% (2013: 23.25%; 2012: 24.5%)	**26**	(47)	(2)
Adjustments in respect of current income tax of previous years	**4**	(2)	3
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**-**	152	105
(Non-deductible expenses)/non-taxable income	**(5)**	10	4
Adjustments in respect of deferred income tax of previous years	**(4)**	4	2
Taxation credit for the year	**21**	117	112

The tax credit recognised for the year ended 31 December 2014 was £21 million (2013: £117 million; 2012: £112 million). Based on a loss before tax for the year of £119 million (2013: £202 million profit; 2012: £9 million profit), this results in an effective tax rate of 17.6% (2013: negative 57.9%; 2012: negative 1,244.4%).

The Finance Act 2012 enacted reductions in the main rate of UK corporation tax from 25% to 24% with effect from 1 April 2012 and from 24% to 23% with effect from 1 April 2013. The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result, the Group's deferred tax balances, which were provided at 25% at 1 January 2012, were re-measured at the rate of 23% in the year ended 31 December 2012 and re-measured at the rate of 20% in the year ended 31 December 2013. For the year ended 31 December 2012, this resulted in a reduction in the net deferred tax liability of £99 million, with £105 million credited to the income statement and £6 million charged to equity. For the year ended 31 December 2013, this resulted in a reduction in the net deferred tax liability of £141 million, with £152 million credited to the income statement and £11 million charged to equity.

Excluding the impact of the change in tax rate, the tax credit recognised for the year on ordinary activities of £21 million (2013: £35 million charge; 2012: £7 million credit) results in an effective tax rate of 17.6% (2013: 17.3%; 2012: negative 78.0%). The tax credit was less (2013: charge was less; 2012: credit was more) than implied by the statutory rate of 21.5% (2013: 23.25%; 2012: 24.5%) primarily due to non-deductible expenses (2013: non-taxable income; 2012: non-taxable income and prior year adjustments).

6 Discontinued operations

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

On 28 February 2013 the Group completed the sale of Stansted Airport Limited ('Stansted airport') to Manchester Airports Group for a cash consideration of £1.5 billion. Stansted airport was classified within discontinued operations in 2012.

Net profit from discontinued operations

For the year ended 31 December 2014, there were no disposals of discontinued operations but the Group realised £3 million from the release of surplus disposal provisions made in the previous year.

	Year ended 31 December 2013			Year ended 31 December 2012		
	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	32	-	32	242	-	242
Operating costs						
Depreciation	-	-	-	(27)	-	(27)
Other	(25)	-	(25)	(178)	-	(178)
Other items						
Fair value loss on investment property	-	-	-	-	(9)	(9)
Operating profit	7	-	7	37	(9)	28
Analysed as:						
Operating profit before exceptional items	7	-	7	68	(9)	59
Exceptional items[1]	-	-	-	(31)	-	(31)
Exceptional disposal costs	-	-	-	(4)	-	(4)
Profit on disposal	456	-	456	-	-	-
Financing						
Finance costs	(3)	-	(3)	(15)	-	(15)
Fair value gain on financial instruments	-	-	-	-	4	4
Profit/(loss) before tax	460	-	460	18	(5)	13
Taxation (charge)/credit	(4)	-	(4)	22	(15)	7
Net profit/(loss)	456	-	456	40	(20)	20

[1] Exceptional costs relate to pensions and represent the share of the movement in the LHR Airports Limited defined benefit pension scheme deficit and of the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

6 Discontinued operations *continued*

Profit on disposal of Stansted airport

	Year ended 31 December 2013 £m
Cash consideration	**1,500**
Transaction and separation costs paid	(20)
Net cash consideration	**1,480**
Transaction and separation costs accrued	**(3)**
Net assets disposed	
Property, plant and equipment	(651)
Investment properties	(577)
Other assets	(30)
Cash and cash equivalents	(31)
Deferred income tax liabilities	213
Release of pension liability	15
Other liabilities	28
	(1,033)
Gain on transfer of retirement benefit obligations	**12**
Profit on disposal	**456**

Disposal proceeds from discontinued operations

	Year ended 31 December 2013 £m
Net cash consideration (above)	1,480
Cash and cash equivalents disposed of with subsidiary undertaking	(31)
Unfunded Unapproved Retirement Benefit Scheme liability settled on disposal	(4)
Retirement benefit commutation paid to pension scheme	(35)
Disposal proceeds from discontinued operations	**1,410**

Investing activities of discontinued operations

Movements in the normal course of business have occurred following the classification of Stansted airport to held-for-sale. During the two months before its disposal in February 2013, Stansted airport paid £4 million for property, plant and equipment.

The cash flows attributable to discontinued operations have been separately disclosed in the consolidated statement of cash flows.

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

7 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2012		8,449	1,609	471	114	1,382	1,830	13,855
Additions		2	-	7	-	-	1,119	1,128
Borrowing costs capitalised	*4*	-	-	-	-	-	100	100
Disposals		(28)	(1)	(13)	-	(4)	-	(46)
Net transfers to investment properties	*8*	-	-	-	-	-	(64)	(64)
Reclassifications		-	5	(3)	-	-	1	3
Transfer to assets held-for-sale	*20*	(804)	(192)	(65)	(17)	-	(44)	(1,122)
Transfer to completed assets		405	5	14	11	2	(437)	-
31 December 2012		8,024	1,426	411	108	1,380	2,505	13,854
Additions		10	-	5	-	-	1,239	1,254
Borrowing costs capitalised	*4*	-	-	-	-	-	164	164
Disposals		(94)	(3)	(48)	-	(29)	-	(174)
Transfer from/(to) investment properties		-	-	-	1	-	(11)	(10)
Reclassifications		-	-	(1)	1	-	-	-
Transfer to completed assets		223	9	67	17	44	(360)	-
31 December 2013		**8,163**	**1,432**	**434**	**127**	**1,395**	**3,537**	**15,088**
Additions		**-**	**-**	**3**	**-**	**-**	**616**	**619**
Borrowing costs capitalised	*4*	**-**	**-**	**-**	**-**	**-**	**89**	**89**
Disposals		**(119)**	**(3)**	**(29)**	**(4)**	**(1)**	**-**	**(156)**
Transfer from/(to) investment properties	*8*	**(11)**	**-**	**-**	**(1)**	**-**	**-**	**(12)**
Transfer to completed assets		**2,655**	**108**	**467**	**9**	**11**	**(3,250)**	**-**
31 December 2014		**10,688**	**1,537**	**875**	**131**	**1,405**	**992**	**15,628**
Depreciation								
1 January 2012		(2,686)	(322)	(281)	(37)	(344)	-	(3,670)
Depreciation charge		(352)	(36)	(49)	(6)	(41)	-	(484)
Impairment		-	-	(3)	-	-	(2)	(5)
Disposals		28	1	13	-	4	-	46
Reclassifications		-	(1)	1	-	-	-	-
Transferred to assets held-for-sale	*20*	364	75	39	3	-	-	481
31 December 2012		(2,646)	(283)	(280)	(40)	(381)	(2)	(3,632)
Depreciation charge		(309)	(30)	(43)	(5)	(40)	-	(427)
Disposals		92	3	46	-	29	2	172
31 December 2013		**(2,863)**	**(310)**	**(277)**	**(45)**	**(392)**	**-**	**(3,887)**
Depreciation charge		**(400)**	**(34)**	**(65)**	**(6)**	**(43)**	**-**	**(548)**
Disposals		**119**	**3**	**29**	**4**	**1**	**-**	**156**
31 December 2014		**(3,144)**	**(341)**	**(313)**	**(47)**	**(434)**	**-**	**(4,279)**
Net book value								
31 December 2014		**7,544**	**1,196**	**562**	**84**	**971**	**992**	**11,349**
31 December 2013		5,300	1,122	157	82	1,003	3,537	11,201
31 December 2012		5,378	1,143	131	68	999	2,503	10,222

7 Property, plant and equipment *continued*

Operational land

The deemed cost of certain operational land on transition to IFRS has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Group occupied assets and included the terminals and airfields. It did not relate to land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence. This resulted in a one-off valuation uplift in the value of airfield assets of £360 million. Further details are provided in Note 32.

Other land and buildings

Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2014 of £9 million (2013: £17 million; 2012: £15 million).

Assets in the course of construction

Assets in the course of construction consist of projects for work on the new Terminal 3 integrated baggage system which incorporates a new baggage facility.

Borrowing costs capitalised

During the year ended 31 December 2014, borrowing costs of £89 million were capitalised (2013: £164 million; 2012: £100 million). Capitalised borrowing costs for both continuing and discontinued operations were calculated by applying an average interest rate of 5.87% (2013: 6.04%; 2012: 4.75%) to expenditure incurred on qualifying assets.

A tax deduction of £89 million (2013: £164 million; 2012: £100 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.

8 Investment properties

	Note	**Airport investment properties £m**	**Assets in the course of construction £m**	**Total £m**
Valuation				
1 January 2012		2,276	6	2,282
Additions		9	-	9
Disposals		(4)	-	(4)
Net transfer from property, plant and equipment	*7*	(1)	65	64
Revaluation		47	3	50
Impairment of fixed asset[1]	*3*	(5)	-	(5)
Transfer to assets held-for-sale		(581)	-	(581)
Transfer to completed assets		6	(6)	-
1 January 2013		1,747	68	1,815
Additions		1	30	31
Revaluation[2]		29	33	62
Transfers to property, plant and equipment	*7*	(1)	-	(1)
Transfers from property, plant and equipment	*7*	11	-	11
1 January 2014		**1,787**	**131**	**1,918**
Additions		**-**	**78**	**78**
Revaluation[2]		**42**	**4**	**46**
Transfers from property, plant and equipment	*7*	**11**	**1**	**12**
Transfer to completed assets[2]		**205**	**(205)**	**-**
31 December 2014		**2,045**	**9**	**2,054**

1 £5 million loss related to Stansted airport prior to its classification as discontinued operations in 2012. A further £4 million valuation loss at Stansted airport was recorded subsequently (Note 6).

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

Investment properties were valued at fair value at 31 December 2014 and 31 December 2013 by CBRE Limited, Chartered Surveyors. At 31 December 2012 investment properties were valued at fair value by CBRE Limited, Chartered Surveyors and Strutt & Parker, Chartered Surveyors. Strutt & Parker were responsible solely for the valuation of residential property and agricultural land at Stansted airport in 2012.

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

8 Investment Properties continued

Details of the valuations performed are provided below:

	31 December 2014	31 December 2013	31 December 2012[1]
	£m	£m	£m
CBRE Limited	**2,054**	1,918	2,308
Strutt & Parker	**-**	-	84
At professional valuation	**2,054**	1,918	2,392

[1] At 31 December 2012, £577m related to investment properties held by Stansted airport, which had been classified as discontinued operations (Note 19).

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 15) has been classified as level 3. The higher the discount rate, terminal yield and expected vacancy rate, the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

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

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £1 million (2013: £1 million; 2012: £2 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 13.

9 Intangible assets

	£m
Cost	
1 January 2012	234
Additions	37
Disposals	(6)
1 January 2013	265
Additions	49
Disposals	(142)
1 January 2014	**172**
Additions	**31**
Disposals	**(26)**
31 December 2014	**177**
Amortisation	
1 January 2012	(180)
Charge for the year	(13)
Disposals	5
1 January 2013	(188)
Charge for the year	(19)
Disposals	142
1 January 2014	**(65)**
Charge for the year	**(24)**
Disposals	**26**
31 December 2014	**(63)**
Net book value	
31 December 2014	**114**
31 December 2013	107
31 December 2012	77

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

Disposals in 2013 related to the removal of fully amortised intangible assets from the fixed assets register.
Software costs include assets in the course of construction of £61 million (2013: £66 million; 2012: £44 million).

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

10 Inventories

	31 December 2014	31 December 2013	31 December 2012
	£m	£m	£m
Consumables	**10**	9	7

The total amount of inventories consumed in the year was £4 million (2013: £5 million; 2012: £5 million). There is no material difference between the statement of financial position value of inventories and their replacement cost.

11 Trade and other receivables

	31 December 2014	31 December 2013	31 December 2012
	£m	£m	£m
Non-current			
Prepaid debt fees[1]	**6**	21	10
Prepayments	**17**	16	15
	23	37	25
Current			
Trade receivables	**224**	178	166
Less: provision for impairment	**(2)**	(2)	(2)
Trade receivables – net	**222**	176	164
Prepayments	**26**	63	42
Term deposits[2]	**170**	-	-
Amounts owed by group undertakings[3]	**30**	40	12
Other receivables	**12**	36	36
	460	315	254

1 Prepaid debt fees largely relate to financing fees paid on facilities not yet drawn and are amortised over the term of the facility.
2 Term deposits include short-term cash investments held by Heathrow Airport Limited with maturity dates up to June 2015.
3 Amounts owed by group undertakings largely relate to external payments received by LHR Airports Limited under the Shared Services Agreement on behalf of Heathrow that will be remitted to Heathrow in due course. This amount is payable on demand and accrues interest at Bank of England base rate +1.5%.

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 2014, trade receivables of £197 million (2013: £169 million; 2012: £154 million) were fully performing. Trade receivables of £18 million (2013: £6 million; 2012: £6 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2014	31 December 2013	31 December 2012
	£m	£m	£m
Fully performing	**197**	169	154
Past due but not impaired :			
Not impaired but overdue by less than 30 days	**2**	6	2
Not impaired but overdue by between 30 and 60 days	**7**	-	3
Not impaired but overdue by more than 60 days	**9**	-	1
	18	6	6
Overdue by more than 90 days	**9**	3	6

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

	2014	2013	2012
	£m	£m	£m
1 January	**2**	2	2
31 December	**2**	2	2

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

11 Trade and other receivables *continued*

As at 31 December 2014, trade receivables were considered for impairment of which £2 million (2013: £2 million; 2012: £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 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 15.

12 Cash and cash equivalents

	31 December 2014 £m	31 December 2013 £m	31 December 2012 £m
Cash at bank and in hand	**200**	19	4
Short-term deposits	**68**	75	32
	268	94	36

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.

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:

	Note	**31 December 2014 £m**	31 December 2013 £m	31 December 2012 £m
Cash at bank and in hand		**200**	19	4
Short-term deposits		**68**	75	32
Bank overdraft	*13*	**(2)**	-	(24)
Cash classified as held-for-sale	*20*	**-**	-	26
		266	94	38

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

13 Borrowings

	31 December 2014 £m	31 December 2013 £m	31 December 2012 £m
Current			
Secured			
Loans	**39**	39	39
Bonds:			
5.850% £400 million due 2013	**-**	-	389
4.600% €750 million due 2014	**-**	564	-
3.000% £300 million due 2015	**300**	-	-
2.500% US$500 million due 2015	**320**	-	-
	659	603	428
Unsecured			
Bank overdrafts	**2**	-	24
Total current (excluding interest payable)	**661**	603	452
Interest payable – external	**251**	251	248
Interest payable – owed to group undertakings	**21**	18	18
Total current	**933**	872	718
Non-current			
Secured			
Bonds:			
4.600% €750 million due 2014	**-**	-	564
3.000% £300 million due 2015	**-**	299	299
2.500% US$500 million due 2015	**-**	301	306
12.450% £300 million due 2016	**318**	332	344
4.125% €500 million due 2016	**381**	405	391
4.375% €700 million due 2017	**542**	581	566
2.500% CHF400 million due 2017	**257**	271	268
4.600% €750 million due 2018	**545**	576	552
6.250% £400 million due 2018	**398**	398	399
4.000% C$400 million due 2019	**219**	225	245
6.000% £400 million due 2020	**397**	396	395
9.200% £250 million due 2021	**275**	266	283
3.000% C$450 million due 2021	**248**	-	-
4.875% US$1,000 million due 2021	**670**	612	661
1.650%+RPI £180 million due 2022	**193**	189	184
1.875% €600 million due 2022	**485**	-	-
5.225% £750 million due 2023	**649**	640	632
7.125% £600 million due 2024	**589**	588	588
4.221% £155 million due 2026	**155**	-	-
6.750% £700 million due 2026	**691**	691	690
7.075% £200 million due 2028	**198**	198	198
6.450% £900 million due 2031	**855**	845	864
Zero-coupon €50 million due January 2032	**44**	45	42
1.366%+RPI £75 million due 2032	**76**	-	-
Zero-coupon €50 million due April 2032	**44**	45	42
4.171% £50 million due 2034	**50**	-	-
Zero-coupon €50 million due 2034	**39**	-	-
1.382%+RPI £50 million due 2039	**51**	-	-
3.334%+RPI £460 million due 2039	**575**	562	547
1.238%+RPI £100 million due 2040	**100**	-	-
5.875% £750 million due 2041	**743**	740	749
4.625% £750 million due 2046	**742**	742	-
1.372%+ RPI £75 million due 2049	**76**	-	-
	10,605	9,947	9,809
Revolving credit facilities	**-**	80	290
Other loans	**136**	175	363
Term note: 3.77% £100 million due 2026	**100**	-	-
Unsecured			
Debenture payable to Heathrow Finance plc	**1,036**	871	867
Total loans	**1,272**	1,126	1,520
Total non-current	**11,877**	11,073	11,329
Total borrowings (excluding interest payable)	**12,538**	11,676	11,781

13 Borrowings *continued*

The average cost of the Group's external gross debt at 31 December 2014 was 4.59% (2013: 4.53%; 2012: 4.24%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2014 was 5.70% (2013: 6.01%; 2012: 5.83%). The reduction in the average cost of debt since the end of 2013 is mainly due to lower inflation at the end of 2014.

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 and 4.221% £155 million due 2026 bonds, wherein the redemption dates coincide with their legal maturity dates.

Fair value of borrowings

	31 December 2014		31 December 2013		31 December 2012	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m	Book value £m	Fair value[1] £m
Current						
Short-term debt	**661**	**666**	603	681	452	450
Non-current						
Long-term debt	**10,841**	**13,078**	10,202	11,620	10,462	12,280
Borrowings from parent	**1,036**	**1,036**	871	871	867	867
	12,538	**14,780**	11,676	13,172	11,781	13,597

[1] Fair value of borrowings are for disclosure purposes only.

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices and are classified as Level 1. For unlisted borrowings, the Group establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data (Level 2). The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value. At 31 December 2014, the fair value of debt classified as Level 1 and Level 2 was £13,054 million and £1,726 million respectively (2013: £11,922 million and £1,250 million respectively; 2012: £11,937 million and £1,660 million respectively).

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.

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.

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 14 and 15.

14 Derivative financial instruments

31 December 2014	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Interest rate swaps	**100**	**-**	**(1)**	**(1)**
Cross-currency swaps	**319**	**2**	**-**	**2**
	419	**2**	**(1)**	**1**
Non-current				
Interest rate swaps	**2,113**	**-**	**(444)**	**(444)**
Cross-currency swaps	**3,447**	**151**	**(101)**	**50**
Index-linked swaps	**5,266**	**21**	**(783)**	**(762)**
	10,826	**172**	**(1,328)**	**(1,156)**
Total	**11,245**	**174**	**(1,329)**	**(1,155)**

31 December 2013	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Interest rate swaps	123	-	(2)	(2)
Cross-currency swaps	513	135	-	135
Foreign exchange contracts	21	-	-	-
	657	135	(2)	133
Non-current				
Interest rate swaps	2,213	2	(213)	(211)
Cross-currency swaps	2,990	141	(69)	72
Index-linked swaps	5,266	22	(855)	(833)
	10,469	165	(1,137)	(972)
Total	11,126	300	(1,139)	(839)

31 December 2012	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Index-linked swaps	396	-	(39)	(39)
Foreign exchange contracts	34	-	-	-
	430	-	(39)	(39)
Non-current				
Interest rate swaps	2,336	-	(402)	(402)
Cross-currency swaps	3,503	290	(30)	260
Index-linked swaps	5,066	16	(662)	(646)
	10,905	306	(1,094)	(788)
Total	11,335	306	(1,133)	(827)

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.

15 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.

As at 31 December 2014, with all other variables remaining constant, if Sterling had strengthened or weakened by 10% against the Euro, annual pre-tax profit would have decreased or increased by £25 million and £31 million respectively (2013: £nil and £nil respectively; 2012: £9 million decrease and £11 million increase respectively). Equity would have decreased or increased by £7 million and £8 million respectively (2013: £17 million decrease and £21 million increase respectively; 2012: £26 million decrease and £31 million increase respectively).

As at 31 December 2014, with all other variables remaining constant, if Sterling had strengthened or weakened by 10% against the USD, annual pre-tax profit would have decreased by £16 million or £4 million respectively (2013: £16 million decrease and £4 million increase respectively; 2012: £1 million decrease and £1 million increase respectively). The impact on equity was immaterial for the period (2013: £5 million and £1m million decrease respectively; 2012: £6 million and £1 million decrease respectively).

These movements arise principally because of the different accounting treatment of foreign currency borrowings versus the related hedging instruments. The Group is not materially exposed to foreign exchange risk on an economic basis.

Price risk

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 2014, with all other variables remaining constant, if the RPI had increased or decreased by a factor of 10%, annual pre-tax profit would have decreased or increased by £230 million and £222 million respectively (2013: £212 million and £202 million respectively; 2012: £188 million and £182 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 2014, the Group's fixed floating interest rate profile, after hedging, on gross debt was 98:02 (2013: 96:04; 2012: 80:20).

15 Financial instruments *continued*

Cash flow and fair value interest rate risk *continued*

Each 0.50% 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 2014		31 December 2013		31 December 2012	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m	Income statement impact £m	Equity impact £m
0.50% increase	**172**	**15**	153	73	74	170
0.50% decrease	**(183)**	**(15)**	(164)	(77)	(79)	(180)

Credit risk

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

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

As at 31 December 2014, the Group had total credit risk with derivative counterparties of £174 million (2013: £308 million; 2012: £306 million).

Financial assets past due but not impaired are disclosed in Note 11 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2014 was £834 million (2013: £571 million; 2012: £560 million).

Liquidity risk

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year. Further details of the risk management objectives and policies 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 2014 £m	31 December 2013 £m	31 December 2012 £m
Floating rate facilities			
Expiring in one to two years	**-**	95	-
Expiring in more than two years	**1,525**	2,000	1,693
	1,525	2,095	1,693

As at 31 December 2014, overdraft facilities of £10 million were available (2013: £10 million; 2012: £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 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**	**2,102**	**8,285**
Borrowing interest payments	**568**	**541**	**1,403**	**4,147**
Derivative financial instruments	**145**	**276**	**-**	**(161)**
Trade payables	**131**	**-**	**-**	**-**
Capital payables	**176**	**199**	**-**	**-**

15 Financial instruments *continued*

Liquidity risk continued

	31 December 2013			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	552	738	2,608	7,116
Borrowing interest payments	574	537	1,423	4,303
Derivative financial instruments	35	134	80	(168)
Trade payables	129	-	-	-
Capital payables	301	209	-	-

	31 December 2012			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	436	702	2,630	7,291
Borrowing interest payments	574	549	1,429	3,731
Derivative financial instruments	82	12	111	(90)
Trade payables[1]	117	-	-	-
Capital payables[1]	270	795	-	-

[1] These balances included £15 million trade payables and £7 million capital payables classified as held-for-sale. Refer to Note 19.

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

	31 December 2014			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**124**	**120**	**181**	**92**
Cross-currency derivative receipts	**(128)**	**(124)**	**(238)**	**(355)**

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

	31 December 2012			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	120	120	291	96
Cross-currency derivative receipts	(152)	(152)	(336)	(358)

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 part of the Group that the relevant debt facility sits.

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

15 Financial instruments *continued*

Capital risk management continued

There are gearing covenants in financing agreements held by the Group. Gearing ratios achieved by the Group are set out below:

	31 December 2014	31 December 2013	31 December 2012
Total net debt to RAB	**0.78**	0.77	0.77
Senior net debt to RAB	**0.68**	0.68	0.66

Financial instruments by category

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

	31 December 2014			
	Loans and receivables £m	**Assets at fair value through income statement £m**	**Derivatives qualifying for hedge accounting £m**	**Total £m**
Derivative financial instruments	**-**	**21**	**153**	**174**
Cash and cash equivalents	**268**	**-**	**-**	**268**
Trade receivables	**222**	**-**	**-**	**222**
Financial asset – term deposit	**170**	**-**	**-**	**170**
Total financial assets	**660**	**21**	**153**	**834**

	31 December 2014			
	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities at amortised cost £m**	**Total £m**
Borrowings[1]	**-**	**-**	**(12,538)**	**(12,538)**
Derivative financial instruments	**(1,022)**	**(307)**	**-**	**(1,329)**
Trade payables	**-**	**-**	**(131)**	**(131)**
Capital payables	**-**	**-**	**(176)**	**(176)**
Total financial liabilities	**(1,022)**	**(307)**	**(12,845)**	**(14,174)**

	31 December 2013			
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Total £m
Derivative financial instruments	-	24	276	300
Cash and cash equivalents	94	-	-	94
Trade receivables	176	-	-	176
Other receivables	1	-	-	1
Total financial assets	271	24	276	571

	31 December 2013			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings[1]	-	-	(11,676)	(11,676)
Derivative financial instruments	(954)	(185)	-	(1,139)
Trade payables	-	-	(129)	(129)
Capital payables	-	-	(301)	(301)
Total financial liabilities	(954)	(185)	(12,106)	(13,245)

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

15 Financial instruments *continued*
Financial instruments by category continued

	31 December 2012			
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Total £m
Derivative financial instruments	-	16	290	306
Cash and cash equivalents[2]	62	-	-	62
Trade receivables[2]	191	-	-	191
Other receivables	1	-	-	1
Total financial assets	254	16	290	560

	31 December 2012			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings[1]	-	-	(11,781)	(11,781)
Derivative financial instruments	(701)	(432)	-	(1,133)
Trade payables[2]	-	-	(117)	(117)
Capital payables[2]	-	-	(270)	(270)
Total financial liabilities	(701)	(432)	(12,168)	(13,301)

1 Total borrowings excluding interest payable of £272 million (2013: £269 million; 2012: £266 million). Refer to Note 13.
2 At 31 December 2012, these balances included £26 million cash and cash equivalents, £27 million trade receivables, £15 million trade payables and £7 million capital payables classified as held-for-sale. Refer to Note 20.

At 31 December 2014, 2013 and 2012, the Group has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

Fair value estimation
Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:
- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At 31 December 2014, 2013 and 2012, 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.

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.

16 Deferred income tax

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

	2014 £m	2013 £m	2012 £m
1 January	**(1,028)**	(1,116)	(1,480)
(Charged)/credited to income statement[1]	**8**	(14)	20
Credited to income statement – change in tax rate[2]	**-**	152	123
(Charged)/credited to equity	**-**	(39)	17
(Charged)/credited to equity – change in tax rate	**-**	(11)	(6)
Transferred to held-for-sale	**-**	-	210
Transfer of deferred tax liability through intercompany	**(3)**	-	-
31 December	**(1,023)**	(1,028)	(1,116)

1 Includes £nil (2013: £nil; 2012: £12 million) tax charge relating to discontinued operations.
2 Includes £nil (2013: £nil; 2012: £18 million) tax credit relating to discontinued operations.

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	**Revaluations of investment property to fair value £m**	**Tax on rolled over gains £m**	**Post employment benefits £m**	**Total £m**
1 January 2012	(1,225)	(352)	(9)	(8)	(1,594)
Credited/(charged) to income statement	47	(1)	-	29	75
Credited to income statement – change in tax rate	97	23	1	1	122
Credited to equity	-	2	-	-	2
Credited to equity – change in tax rate	-	5	-	-	5
Transferred to held-for-sale	130	84	-	(4)	210
Transferred to deferred income tax assets	-	-	-	(18)	(18)
1 January 2013	(951)	(239)	(8)	-	(1,198)
Charged to income statement	(47)	(1)	-	-	(48)
Credited to income statement – change in tax rate	118	25	1	-	144
Credited to equity	-	1	-	-	1
Credited to equity – change in tax rate	-	7	-	-	7
1 January 2014	**(880)**	**(207)**	**(7)**	**-**	**(1,094)**
Charged to income statement	**(60)**	**(17)**	**-**	**-**	**(77)**
Credited to equity	**-**	**1**	**-**	**-**	**1**
Transferred from deferred income tax assets	**10**	**(2)**	**-**	**-**	**8**
31 December 2014	**(930)**	**(225)**	**(7)**	**-**	**(1,162)**

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

16 Deferred income tax *continued*

Deferred income tax assets

	Financial instruments £m	Post employment benefits £m	Total £m
1 January 2012	114	-	114
Charged to the income statement	(55)	-	(55)
Credited to the income statement – change in tax rate	1	-	1
Credited to equity	15	-	15
Charged to equity – change in tax rate	(11)	-	(11)
Transferred from deferred income tax liability	-	18	18
1 January 2013	64	18	82
Credited to the income statement	33	1	34
Credited/(charged) to the income statement – change in tax rate	10	(2)	8
Charged to equity	(40)	-	(40)
Charged to equity – change in tax rate	(18)	-	(18)
1 January 2014	**49**	**17**	**66**
Credited to the income statement	**55**	**30**	**85**
Credited/(charged) to equity	**3**	**(4)**	**(1)**
Transferred to deferred income tax liability	**(8)**	**-**	**(8)**
Transfer of deferred tax liability through intercompany	**-**	**(3)**	**(3)**
31 December 2014	**99**	**40**	**139**

Deferred income tax credited/(charged) to equity during the year is as follows:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Cash flow hedge reserve	**3**	(40)	15
Cash flow hedge reserve – change in tax rate	**-**	(18)	(11)
Tax relating to retirement benefits	**(4)**	-	-
Tax relating to indexation of operating land	**1**	1	2
Retained earnings – change in tax rate	**-**	7	5
	-	(50)	11

The Finance Act 2012 enacted reductions in the main rate of UK corporation tax from 25% to 24% with effect from 1 April 2012 and from 24% to 23% with effect from 1 April 2013. The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result, the Group's deferred tax balances, which were previously provided at 25%, have been re-measured at the rate of 23% in the year ended 31 December 2012 and re-measured at the rate of 20% in the year ended 31 December 2013. For the year ended 31 December 2012, this resulted in a reduction in the net deferred tax liability of £117 million, with £123 million credited to the income statement and £6 million charged to equity. For the year ended 31 December 2013, this resulted in a reduction in the net deferred tax liability of £141 million, with £152 million credited to the income statement and £11 million charged to equity.

For deferred tax purposes operational land has been treated as one asset. The deferred tax liability has been calculated as the fair value less the indexed base cost. Further details are provided in Note 32.

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

17 Retirement benefit obligations

Characteristics of the LHR Airports Limited related liabilities
LHR Airports Limited operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Heathrow Airport Holdings Group has no further payment obligations once the contributions have been paid.

The Heathrow Airport Holdings 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 LHR Airports Limited, is responsible for governance of the Scheme. The employer's contributions are determined based on triennial valuations conducted on assumptions determined by the Trustee and agreed by LHR Airports Limited. The defined benefit obligation or surplus is calculated quarterly by independent actuaries.

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.

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

Amounts arising from LHR Airports Limited pensions related liabilities in the Group's financial statements
The Group recognises its share of the LHR Airports Limited pension related liabilities based on pensionable salaries of participating employees at Heathrow Airport Limited and Heathrow Express Operating Company Limited, the Group's subsidiaries. The Group's share of the pension related liabilities, as at 31 December 2014, is 100% (2013: 87 %; 2012: 86%). This amounted to £229 million (2013: £106 million; 2012: £115 million). Further information on the allocation basis is outlined in the SSA and referred to in accounting policies.

The Group's liabilities in relation to pensions are recognised as a current liability if the external Scheme is in a net deficit position, or a current asset if the external Scheme is in a net surplus position.

The net deficit or surplus of the LHR Airports Limited retirement benefit schemes, being the BAA Pension Scheme, Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefit Scheme, is presented below for the current and previous four financial years.

	31 December				
	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Fair value of plan assets	**3,277**	2,867	2,791	2,691	2,359
Benefit obligation	**(3,476)**	(2,960)	(2,894)	(2,652)	(2,403)
(Deficit)/surplus in BAA Pension Scheme	**(199)**	(93)	(103)	39	(44)
Unfunded pension obligations	**(24)**	(22)	(24)	(23)	(19)
Post-retirement medical benefits	**(6)**	(6)	(6)	(6)	(4)
Deficit in other pension related liabilities	**(30)**	(28)	(30)	(29)	(23)
Net (deficit)/surplus in pension schemes	**(229)**	(121)	(133)	10	(67)
Group share of net (deficit)/surplus in pension schemes	**(229)**	(106)	(115)	9	(53)

(a) BAA Pension Scheme
The Heathrow Airport Holdings 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 Heathrow Airport Holdings Group and are administered by the trustee.

The value placed on the liabilities of the scheme as at 31 December 2014 is based on the full actuarial valuation carried out at 30 September 2013. The liabilities have been calculated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS 19 Employee Benefits (Revised 2011) ('IAS 19 Revised'). The Scheme assets are stated at their bid value at 31 December 2014.

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

17 Retirement benefit obligations *continued*
The actual return on plan assets was £526 million (2013: £141 million; 2012: £117 million).

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

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

Analysis of fair value of plan assets

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

1 Other includes £275 million of hedge fund assets and £1,208 million of investment in assets to minimise inflation and interest rate risk as at 31 December 2014.
2 Other includes £112 million of property assets and £876 million of cash, macro oriented and hedging mandate instruments as at 31 December 2013.
3 Other mainly includes £198 million of investment managed by hedge funds and £729 million of interest rate and inflation hedging instruments as at 31 December 2012.

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

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

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

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

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

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

As required under IAS 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.

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

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

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

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

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

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

(b) Other pension and post-retirement liabilities
LHR Airports Limited also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the Scheme rules. The Group's share of the unfunded pension obligations amount to £24 million (2013: £22 million; 2012: £24 million) and are included in the statement of financial position.

In addition LHR Airports Limited provides post-retirement medical benefits to certain pensioners. The Group's share of the present value of the future liabilities under this arrangement is £6 million (2013: £6 million; 2012: £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.

18 Provisions

	Pensions £m	Disposal of operations £m	Reorganisation costs £m	Other £m	Total £m
1 January 2012	22	1	4	7	34
Charged to income statement	-	-	2	3	5
Utilised	-	(1)	(4)	(5)	(10)
Movement in pensions	73	-	-	-	73
1 January 2013	95	-	2	5	102
Charged to income statement	-	8	3	-	11
Utilised	-	(3)	(5)	(1)	(9)
Transfer in	-	-	-	11	11
Unwinding of discount	-	-	-	1	1
Movement in pensions	11	-	-	-	11
1 January 2014	**106**	**5**	**-**	**16**	**127**
Charged to income statement	**-**	**-**	**8**	**-**	**8**
Utilised	**-**	**(2)**	**-**	**(4)**	**(6)**
Released to income statement	**-**	**(3)**	**-**	**-**	**(3)**
Transfer out	**-**	**-**	**(8)**	**-**	**(8)**
Unwinding of discount	**-**	**-**	**-**	**1**	**1**
Movement in pensions	**123**	**-**	**-**	**-**	**123**
31 December 2014	**229**	**-**	**-**	**13**	**242**
Non-current	**-**	**-**	**-**	**10**	**10**
Current	**229**	**-**	**-**	**3**	**232**
31 December 2014	**229**	**-**	**-**	**13**	**242**
Non-current	-	-	-	12	12
Current	106	5	-	4	115
31 December 2013	106	5	-	16	127
Non-current	-	-	-	5	5
Current	95	-	2	-	97
31 December 2012	95	-	2	5	102

Pensions

The closing provision is the share of the net deficit of the LHR Airports Limited defined benefit pension scheme and the Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical Benefits pension related liabilities allocated to the Group.

At 31 December 2014, £199 million represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2013: £81 million; 2012: £76 million). The remaining £30 million (2013: £25 million; 2012: £19 million) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical Benefits pension related liabilities.

Disposal of operations

During 2012, a £1 million provision for costs associated with the sale of Gatwick airport was fully utilised. A provision was recognised in 2013 for costs associated with the sale of Stansted airport on 28 February 2013. All amounts were either utilised or released to the income statement in 2014.

Reorganisation costs

The costs associated with the Group's reorganisation programmes primarily relate to various restructuring processes designed to reduce the size and cost of overhead functions. In 2013, £22 million of provisions have been recognised in LHR Airports Limited in relation to activities undertaken by Heathrow Airport Limited because LHR Airports Limited, as the legal employer, has the obligation. The Group has recognised a corresponding intercompany creditor with LHR Airports which relate to severance and pension payments.

Other

These provisions relate in part to onerous contracts, primarily for property leases.

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

19 Trade and other payables

	31 December 2014 £m	31 December 2013 £m	31 December 2012 £m
Non-current			
Deferred income	**2**	3	4
	2	3	4
Current			
Deferred income	**29**	27	31
Trade payables[1]	**131**	129	102
Other tax and social security	**8**	10	6
Other payables	**8**	8	30
Capital payables	**176**	301	263
Amount owed to group undertakings – operating[2]	**102**	86	18
	454	561	450

1 Trade payables are non-interest bearing and are generally on 30-day terms.
2 Amounts owed to group undertakings largely relate to external payments made by LHR Airports Limited under the Shared Services Agreement on behalf of Heathrow.

20 Assets held-for-sale

	31 December 2012 £m
Property, plant and equipment	647
Investment properties	577
Inventories	2
Trade and other receivables[1]	34
Cash and cash equivalents	26
Assets classified as held-for-sale	1,286
Deferred income tax liabilities	(210)
Provisions	(20)
Trade and other payables	(29)
Liabilities classified as held-for-sale	(259)
Net assets of disposal group	1,027

1 Includes trade receivables of £27 million, £16 million were fully performing, a further £11 million were past due, up to 3 months, but not impaired and are expected to be fully recovered.

On 20 August 2012 a sale process commenced for Heathrow (SP) Limited's interest in Stansted Airport Limited. The disposal process led to the announcement in 2013 that the airport was being sold to Manchester Airports Group for £1,500 million. This transaction was completed on 28 February 2013. The net assets of Stansted airport were classified as held-for-sale at 31 December 2012. The results and performance of discontinued operations are disclosed in Note 6.

Movements in the normal course of business have occurred following the classification of Stansted airport to held-for-sale.

21 Share capital

	£
Authorised	
1 January 2012, 1 January 2013, 1 January 2014 and 31 December 2014	
9,000,000,000 ordinary shares of 0019p each	17,100,000
Called up, allotted and fully paid	
1 January 2012, 1 January 2013, 1 January 2014 and 31 December 2014	
5,773,555,178 ordinary shares of 0019p each	**10,969,755**

22 Share premium reserve

	£m
1 January 2012, 1 January 2013, 1 January 2014 and 31 December 2014	**499**

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

23 Merger reserve

	£m
1 January 2012 and 1 January 2013	(4,536)
Transfer to profit and loss reserve[1]	778
31 December 2013 and 31 December 2014	**(3,758)**

[1] Following the sale of Stansted Airport Limited in February 2013 the components of the merger reserve attributed to that entity were realised.

Refer to the Basis of consolidation section in the Accounting policies.

24 Cash flow hedge reserve

	2014 £m	2013 £m	2012 £m
1 January	**(310)**	(455)	(396)
Cash flow hedges			
Fair value (losses)/gains	**(217)**	216	(373)
Transferred to income statement	**203**	(13)	310
Deferred tax on fair value losses/(gains)	**3**	(40)	15
Change in tax rate	**-**	(18)	(11)
31 December	**(321)**	(310)	(455)

25 Tax relating to components of other comprehensive income

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

	Year ended 31 December 2014			Year ended 31 December 2013			Year ended 31 December 2012		
	Before tax £m	**Tax credit/ (charge) £m**	**After tax £m**	Before tax £m	Tax (charge)/ credit £m	After tax £m	Before tax £m	Tax credit/ (charge) £m	After tax £m
Cash flow hedges									
(Losses)/gains taken to equity	**(217)**	**43**	**(174)**	216	(43)	173	(373)	86	(287)
Transferred to income statement	**203**	**(40)**	**163**	(13)	3	(10)	310	(71)	239
Change in tax rate	**-**	**-**	-	-	(11)	(11)	-	(6)	(6)
Tax relating to retirement benefit	**-**	**(4)**	**(4)**	-	-	-	-	-	-
Tax relating to indexation of operating land	**-**	**1**	**1**	-	1	1	-	2	2
Other comprehensive income	**(14)**	**-**	**(14)**	203	(50)	153	(63)	11	(52)
Current tax	**-**	**-**	-	-	-	-	-	-	-
Deferred tax	**-**	**-**	-	-	(50)	-	-	11	-
	-	**-**	-	-	(50)	-	-	11	-

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

26 Retained earnings

	2014 £m	2013 £m	2012 £m
1 January	**2,722**	3,378	3,666
Consolidated (loss)/profit for the year	**(95)**	775	141
Dividends paid[1]	**(445)**	(661)	(436)
Transfer from merger reserve (Note 23)	**-**	(778)	-
Change in tax rate	**-**	7	5
Tax relating to retirement benefits	**(4)**	-	-
Tax relating to indexation of operating land	**1**	1	2
31 December	**2,179**	2,722	3,378

[1] During the year ended 31 December 2014, the Company paid dividends of £445 million to Heathrow Finance plc, being £65 million on 21 February 2014, £79 million on 27 June 2014, £66 million on 25 July 2014, £85 million on 23 September 2014 and £150 million on 18 December 2014. (2013: Heathrow (SP) Limited paid dividends to Heathrow Finance plc, which funded £204 million in quarterly dividends to Heathrow (SP) Limited's ultimate shareholders, a £300 million one-off return relating to the sale of Stansted airport and £157 million related to the servicing of external debt at Heathrow (SP) Limited's holding companies and rebalancing the amount of external debt between Heathrow (SP) Limited's holding companies and subsidiaries. These dividends, totalling £661 million, comprised; £24 million on 24 January 2013, £99 million on 14 February 2013, £300 million on 15 March 2013, £64 million on 27 June 2013, £83 million on 11 July 2013, £48 million on 18 September 2013 and £43 million on 20 December 2013; 2012: Heathrow (SP) Limited paid dividends of £436 million to Heathrow Finance plc, being £395 million on 15 March 2012, £20 million on 21 June 2012 and £21 million on 10 August 2012).

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 2014		31 December 2013		31 December 2012	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**13**	**43**	13	41	14	50
Within two to five years	**36**	**137**	42	136	48	164
After five years	**12**	**513**	17	544	23	880
	61	**693**	72	721	85	1,094

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

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

Non-cancellable operating lease commitments – Group as a lessor

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

	31 December 2014		31 December 2013		31 December 2012	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**93**	**-**	93	-	99	-
Within two to five years	**320**	**-**	242	-	259	-
After five years	**1,585**	**-**	1,528	-	1,638	-
	1,998	**-**	1,863	-	1,996	-

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.

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

27 Commitments and contingent liabilities *continued*

Non-cancellable electricity purchase commitment
The Group had a contractual commitment to purchase electricity that was used to satisfy physical delivery requirements for electricity usage of the Group until March 2013. The contract has now expired and so the outstanding commitment under the contract at 31 December 2013 was nil (2012: £5 million).

Group commitments for property, plant and equipment

	31 December 2014 £m	31 December 2013 £m	31 December 2012 £m
Contracted for, but not accrued:			
Tunnel refurbishment	**69**	-	-
Capacity optimisation	**48**	33	20
Baggage systems	**29**	42	52
IT projects	**13**	15	15
Terminal 2	**5**	58	625
Terminal restoration and modernisation	**2**	37	29
	166	185	741
Other projects	**33**	24	54
	199	209	795

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. The Group has in place long-term capital expenditure programmes at Heathrow where there is a £2.6 billion (in 2011/12 prices) capital investment programme in respect of the current regulatory period that ends on 31 December 2018. Capital expenditure at Heathrow in the year ending 31 December 2015 is expected to be over £580 million. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project.

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

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

Contingent liabilities
The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £1 million at 31 December 2014 (2013: £1 million; 2012: £1 million).

28 Notes to the consolidated cash flow statement

Reconciliation of net (loss)/profit before tax to cash generated from continuing operations

	Note	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating activities				
(Loss)/profit before tax		**(119)**	202	9
Adjustments for:				
Fair value loss/(gain) on financial instruments	*4(b)*	**154**	81	(108)
Finance costs	*4(a)*	**1,038**	879	942
Finance income	*4(a)*	**(234)**	(229)	(253)
Impairment		**-**	-	5
Fair value gain on investment properties	*1(c)*	**(46)**	(62)	(50)
Depreciation	*2*	**548**	427	457
Amortisation	*2*	**24**	19	13
Decrease/(increase) in trade and other receivables		**14**	(17)	(24)
Increase in inventories		**(1)**	(2)	(1)
(Decrease)/increase in trade and other payables		**(4)**	21	(10)
Decrease in provisions		**(3)**	(4)	(4)
Increase in intercompany payable		**-**	51	-
Difference between pension charge and cash contributions		**(22)**	(29)	(38)
Exceptional pension charge	*3*	**176**	66	142
Cash generated from continuing operations		**1,525**	1,403	1,080

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.

	1 January 2014 £m	**Cashflow £m**	**Transfers from non-current to current £m**	**Other non-cash changes[1] £m**	**31 December 2014 £m**
Cash and cash equivalents	94	174	-	-	**268**
Term deposits	-	170	-	-	**170**
Current debt	(603)	551	(636)	27	**(661)**
Non-current debt	(10,202)	(1,289)	636	14	**(10,841)**
Net debt	**(10,711)**	**(394)**	**-**	**41**	**(11,064)**

	1 January 2013 £m	**Cashflow £m**	**Transfers from non-current to current £m**	**Other non-cash changes[1] £m**	**31 December 2013 £m**
Cash and cash equivalents	36	58	-	-	94
Current debt	(452)	459	(610)	-	(603)
Non-current debt	(10,462)	(364)	610	14	(10,202)
Net debt	(10,878)	153	-	14	(10,711)

	1 January 2012 £m	**Cashflow £m**	**Transfers from non-current to current £m**	**Other non-cash changes[1] £m**	**31 December 2012 £m**
Cash and cash equivalents	33	3	-	-	36
Current debt	(872)	696	(428)	152	(452)
Non-current debt	(9,416)	(1,514)	428	40	(10,462)
Net debt	(10,255)	(815)	-	192	(10,878)

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

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

29 Related party transactions

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

	Year ended 31 December 2014 Purchase of goods and services £m	Year ended 31 December 2013 Purchase of goods and services £m	Year ended 31 December 2012 Purchase of goods and services £m
Ferrovial Agroman	**22**	65	93
Amey Community Limited	**9**	22	23
HETCo[1]	**106**	333	257
Heathrow Finance plc[2]	**57**	55	53
	194	475	426

1 A joint venture between Ferrovial Agroman and Laing O'Rourke.
2 Relates to interest on the debenture payable to Heathrow Finance plc (Note 4).

	Year ended 31 December 2014 Sales to related party £m	Year ended 31 December 2013 Sales to related party £m	Year ended 31 December 2012 Sales to related party £m
Harrods International Limited	**23**	20	-
Qatar Airways	**25**	21	-
	48	41	-

Balances outstanding with related parties were as follows:

	31 December 2014		31 December 2013		31 December 2012	
	Amounts owed by related parties £m	**Amounts owed to related parties £m**	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
HETCo[1]	**-**	**-**	-	27	**-**	29
Heathrow Finance plc	**-**	**1,057**	-	889	**-**	885
Qatar Airways	**1**	**-**	-	-	**-**	-
	1	**1,057**	-	916	**-**	914

1 A joint venture between Ferrovial Agroman and Laing O'Rourke.

The related parties outlined above are related through ownership by the same parties. The transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arm's length basis.

The Group enters into transactions with LHR Airports Limited in accordance with the SSA, as described in the Accounting policies note. The amount expensed in the Group's income statement in relation to these charges is shown within Notes 2 and 3. Where the repayment terms and nature of settlement of the related statement of financial position amounts are known they are disclosed in the relevant statement of financial position caption, see Notes 11 and 19. The Group also has other balances with other entities owned by FGP Topco Limited that are not eliminated on consolidation and that relate to previous group reconstructions and financing arrangements. Where known, the nature, settlement and terms of the arrangements are disclosed in Notes 11 and 19.

30 Ultimate parent undertaking and controlling party

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

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

31 Subsidiaries

The Company's subsidiaries are as follows:

Holding company
Heathrow (AH) Limited

Airport owner and operator
Heathrow Airport Limited †

Other
Heathrow Funding Limited #
Heathrow Express Operating Company Limited †

† Held by a subsidiary undertaking
# Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly-owned, incorporated in Great Britain and registered in England and Wales.

32 Transition to IFRS

As stated in the Accounting policies, these are the Group's first consolidated financial statements prepared in accordance with IFRS as adopted by the EU. The Group has early-adopted IFRS with a transition date of 1 January 2012.

The accounting policies disclosed in the Accounting policies section have been applied in preparing these financial statements for the year ended 31 December 2014, the comparative information for the years ended 31 December 2013 and 2012, and in the preparation of an opening IFRS statement of financial position at 1 January 2012, with the exception of IFRS 13 'Fair Value Measurement', which was applied from 1 January 2012.

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement disclosure requirements for use across other IFRS. Effective from 1 January 2013, this resulted in an additional £5 million charge recognised in profit and loss before tax. For the year ended 31 December 2014, an additional £13 million charge was recognised in profit and loss before tax.

In preparing its opening IFRS statement of financial position as at 1 January 2012 the Group has adjusted amounts previously reported in its statutory annual report and financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows has been provided below.

First-time adoption of IFRS

IFRS 1 grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to IFRS.

Operational land

The deemed cost of certain operational land on transition to IFRS has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Group occupied assets and included the terminals and airfields. It does not include land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence. This resulted in a one-off valuation uplift in the value of airfield assets in property, plant and equipment of £360 million. The increase on the related deferred income tax liability at 1 January 2012 was £43 million and £32 million at 31 December 2013. For deferred income tax purposes the operational land has been treated as one asset. The deferred tax liability has been calculated as the valuation less the indexed base cost.

Business combinations

The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to past business combinations.

During 2008 the Group acquired the share capital of Heathrow (AH) Limited from BAA Limited, now known as Heathrow Airport Holdings Limited, as part of a wider refinancing within the FGP Topco Limited group. At the time, Heathrow (AH) Limited was the owner of the regulated airports, of which Heathrow and Stansted airports remained at 1 January 2012. This group reorganisation was outside the scope of IFRS 3 as the combining entities both before and after the reconstruction were controlled by the same entity, FGP Topco Limited, the ultimate parent undertaking of the Company, and control was not transitory. In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' an appropriate accounting policy was developed by the directors for common control transactions, whereby the Group consolidated the results and net assets of the Company and its subsidiaries using the merger method of accounting ('predecessor accounting'), which was similar to UK GAAP. The principal impact of this was that the consolidated financial statements showed the results and net assets as if the Group had always existed, with no fair value adjustments to the recognised assets and liabilities and therefore no goodwill. The differences arising were included in merger reserves within equity.

The Group acquired Heathrow Express Operating Company Limited on 7 August 2008 from BAA Airports Limited, now known as LHR Airports Limited, a fellow group company. This acquisition was not deemed to be part of the group reorganisation described above. No goodwill was generated on acquisition.

IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'

Under UK GAAP, the Group applied FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement'. FRS 25 implemented IAS 32 and FRS 26 implemented the recognition, measurement and hedge accounting requirements of IAS 39 into UK GAAP. As the Group had accounted for its financial instruments under FRS 25 and FRS 26, and formally designated its hedges under FRS 26 it has complied with the requirements of IAS 32 and IAS 39. The fair values of the Group's financial instruments and derivatives, and the balances deferred within equity under hedge accounting under UK GAAP have therefore been unaffected on transition to IFRS on 1 January 2012.

32 Transition to IFRS *continued*
First-time adoption of IFRS continued
Borrowing costs
The Group has elected to apply the requirements of IAS 23 'Borrowing Costs' from 1 January 2012, the date of transition to IFRS. There has been no change to the borrowing costs capitalised as a result of the application of IAS 23 since the transition date.

Reconciliation of equity

1 January 2012	Group under UK GAAP £m	Presentational adjustments £m	FV uplift on operational land £m	Deferred tax £m	Group under IFRS £m
	Note A	**Note B**	**Note D, F**	**Note F**	
Assets					
Non-current assets					
Property, plant and equipment	12,161	(2,336)	360	-	10,185
Investment properties	-	2,282	-	-	2,282
Intangible assets	-	54	-	-	54
Derivative financial instruments	369	-	-	-	369
	12,530	**-**	**360**	**-**	**12,890**
Current assets					
Inventories	8	-	-	-	8
Trade and other receivables	306	-	-	-	306
Derivative financial instruments	171	-	-	-	171
Current asset investments	21	(21)	-	-	-
Cash and cash equivalents	12	21	-	-	33
	518	**-**	**-**	**-**	**518**
Total assets	**13,048**	**-**	**360**	**-**	**13,408**
Liabilities					
Non-current liabilities					
Borrowings	(10,014)	-	-	-	(10,014)
Derivative financial instruments	(1,082)	-	-	-	(1,082)
Deferred income tax liabilities	(123)	-	(43)	(1,314)	(1,480)
Provisions	(34)	29	-	-	(5)
Trade and other payables	(1)	-	-	-	(1)
	(11,254)	**29**	**(43)**	**(1,314)**	**(12,582)**
Current liabilities					
Borrowings	(872)	(206)	-	-	(1,078)
Provisions	-	(29)	-	-	(29)
Current income tax liabilities	(24)	-	-	-	(24)
Trade and other payables	(657)	206	-	-	(451)
	(1,553)	**(29)**	**-**	**-**	**(1,582)**
Total liabilities	**(12,807)**	**-**	**(43)**	**(1,314)**	**(14,164)**
Net assets/(liabilities)	**241**	**-**	**317**	**(1,314)**	**(756)**
Equity					
Capital and reserves					
Share capital	11	-	-	-	11
Share premium	499	-	-	-	499
Revaluation reserves	1,514	(1,514)	-	-	-
Merger reserves	(4,536)	-	-	-	(4,536)
Cash flow hedge reserves	(396)	-	-	-	(396)
Retained earnings	3,149	1,514	317	(1,314)	3,666
Total shareholder's equity	**241**	**-**	**317**	**(1,314)**	**(756)**

32 Transition to IFRS *continued*
Reconciliation of equity

31 December 2013

	Group under UK GAAP £m	Presentational adjustments £m	FV uplift on operational land £m	FV movement on investment property AICC £m	Deferred tax £m	Group under IFRS £m
	Note A	**Note B**	**Note D, F**	**Note E, F**	**Note F**	
Assets						
Non-current assets						
Property, plant and equipment	12,830	(1,989)	360	-	-	11,201
Investment properties	-	1,882	-	36	-	1,918
Intangible assets	-	107	-	-	-	107
Derivative financial instruments	165	-	-	-	-	165
Trade and other receivables	-	37	-	-	-	37
	12,995	**37**	**360**	**36**	**-**	**13,428**
Current assets						
Inventories	9	-	-	-	-	9
Trade and other receivables	352	(37)	-	-	-	315
Derivative financial instruments	135	-	-	-	-	135
Current asset investments	75	(75)	-	-	-	-
Cash and cash equivalents	19	75	-	-	-	94
	590	**(37)**	**-**	**-**	**-**	**553**
Total assets	**13,585**	**-**	**360**	**36**	**-**	**13,981**
Liabilities						
Non-current liabilities						
Borrowings	(11,073)	-	-	-	-	(11,073)
Derivative financial instruments	(1,137)	-	-	-	-	(1,137)
Deferred income tax liabilities	(148)	-	(32)	(7)	(841)	(1,028)
Provisions	(127)	115	-	-	-	(12)
Trade and other payables	(3)	-	-	-	-	(3)
	(12,488)	**115**	**(32)**	**(7)**	**(841)**	**(13,253)**
Current liabilities						
Borrowings	(603)	(269)	-	-	-	(872)
Derivative financial instruments	(2)	-	-	-	-	(2)
Provisions	-	(115)	-	-	-	(115)
Current income tax liabilities	(14)	-	-	-	-	(14)
Trade and other payables	(830)	269	-	-	-	(561)
	(1,449)	**(115)**	**-**	**-**	**-**	**(1,564)**
Total liabilities	**(13,937)**	**-**	**(32)**	**(7)**	**(841)**	**(14,817)**
Net assets/(liabilities)	**(352)**	**-**	**328**	**29**	**(841)**	**(836)**
Equity						
Capital and reserves						
Share capital	11	-	-	-	-	11
Share premium	499	-	-	-	-	499
Revaluation reserves	461	(461)	-	-	-	-
Merger reserves	(3,758)	-	-	-	-	(3,758)
Cash flow hedge reserves	(310)	-	-	-	-	(310)
Retained earnings	2,745	461	328	29	(841)	2,722
Total shareholder’s equity	**(352)**	**-**	**328**	**29**	**(841)**	**(836)**

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

32 Transition to IFRS *continued*
Reconciliation of equity

	31 December 2014					
	Group under UK GAAP £m	Presentational adjustments £m	FV uplift on operational land £m	FV movement on investment property AICC £m	Deferred tax £m	Group under IFRS £m
	Note A	Note B	Note D, F	Note E, F	Note F	
Assets						
Non-current assets						
Property, plant and equipment	13,153	(2,164)	360	-	-	11,349
Investment properties	-	2,050	-	4	-	2,054
Intangible assets	-	114	-	-	-	114
Derivative financial instruments	172	-	-	-	-	172
Trade and other receivables	-	23	-	-	-	23
	13,325	**23**	**360**	**4**	**-**	**13,712**
Current assets						
Inventories	10	-	-	-	-	10
Trade and other receivables	313	147	-	-	-	460
Current income tax assets	18	-	-	-	-	18
Derivative financial instruments	2	-	-	-	-	2
Current asset investments	238	(238)	-	-	-	-
Cash and cash equivalents	200	68	-	-	-	268
	781	**(23)**	**-**	**-**	**-**	**758**
Total assets	**14,106**	**-**	**360**	**4**	**-**	**14,470**
Liabilities						
Non-current liabilities						
Borrowings	(11,877)	-	-	-	-	(11,877)
Derivative financial instruments	(1,328)	-	-	-	-	(1,328)
Deferred income tax liabilities	(151)	-	(30)	(1)	(841)	(1,023)
Provisions	(242)	232	-	-	-	(10)
Trade and other payables	(2)	-	-	-	-	(2)
	(13,600)	**232**	**(30)**	**(1)**	**(841)**	**(14,240)**
Current liabilities						
Borrowings	(661)	(272)	-	-	-	(933)
Derivative financial instruments	(1)	-	-	-	-	(1)
Provisions	-	(232)	-	-	-	(232)
Trade and other payables	(726)	272	-	-	-	(454)
	(1,388)	**(232)**	**-**	**-**	**-**	**(1,620)**
Total liabilities	**(14,988)**	**-**	**(30)**	**(1)**	**(841)**	**(15,860)**
Net (liabilities)/assets	**(882)**	**-**	**330**	**3**	**(841)**	**(1,390)**
Equity						
Capital and reserves						
Share capital	11	-	-	-	-	11
Share premium	499	-	-	-	-	499
Revaluation reserves	540	(540)	-	-	-	-
Merger reserve	(3,758)	-	-	-	-	(3,758)
Cash flow hedge reserves	(321)	-	-	-	-	(321)
Retained earnings	2,147	540	330	3	(841)	2,179
Total shareholder's equity	**(882)**	**-**	**330**	**3**	**(841)**	**(1,390)**

32 Transition to IFRS *continued*

Reconciliation of total comprehensive income

	Year ended 31 December 2012					
	Group under UK GAAP £m	**Held-for-sale adjustments £m**	**Fair value movement on investment properties £m**	**Retirement benefits £m**	**Deferred tax £m**	**Group under IFRS £m**
	Note A	**Note C**	**Note E, F**	**Note G**	**Note F**	
Continuing operations						
Revenue	2,464	(242)	-	-	-	2,222
Operating costs	(1,909)	219	-	13	-	(1,677)
Other operating items						
Fair value gain on investment properties	-	-	50	-	-	50
Operating profit	**555**	**(23)**	**50**	**13**	**-**	**595**
Analysed as:						
Operating profit before exceptional items	738	(54)	50	3	-	737
Exceptional items	(183)	31	-	10	-	(142)
Exceptional impairment	**(5)**	**-**	**-**	**-**	**-**	**(5)**
Loss on disposal of Stansted	**(4)**	**4**	**-**	**-**	**-**	**-**
Financing						
Finance income	266	-	-	(13)	-	253
Finance costs	(957)	15	-	-	-	(942)
Fair value gain/(loss) on financial instruments	112	(4)	-	-	-	108
	(579)	**11**	**-**	**(13)**	**-**	**(581)**
(Loss)/profit before tax	**(33)**	**(8)**	**50**	**-**	**-**	**9**
Taxation before change in tax rate	(28)	8	(1)	-	28	7
Change in tax rate	20	(18)	19	-	84	105
Taxation	**(8)**	**(10)**	**18**	**-**	**112**	**112**
(Loss)/profit for the year from continuing operations	**(41)**	**(18)**	**68**	**-**	**112**	**121**
Profit from discontinued operations	-	29	(9)	-	-	20
Consolidated (loss)/profit for the year	**(41)**	**11**	**59**	**-**	**112**	**141**
Other comprehensive income						
Cash flow hedges	-	-	-	-	-	(48)
Tax	-	-	-	-	-	(4)
Other comprehensive income net of tax	-	-	-	-	-	(52)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**89**

32 Transition to IFRS *continued*

Reconciliation of total comprehensive income

	Year ended 31 December 2013					
	Group under UK GAAP £m	**Held-for-sale adjustments £m**	**Fair value movement on investment properties £m**	**Retirement benefits £m**	**Deferred tax £m**	**Group under IFRS £m**
	Note A	**Note C**	**Note E, F**	**Note G**	**Note F**	
Continuing operations						
Revenue	2,506	(32)	-	-	-	2,474
Operating costs	(1,647)	32	2	10	-	(1,603)
Other operating items						
Fair value gain on investment properties	-	-	62	-	-	62
Operating profit	**859**	**-**	**64**	**10**	**-**	**933**
Analysed as:						
Operating profit before exceptional items	973	-	64	-	-	1,037
Exceptional items	(114)	-	-	10	-	(104)
Profit on disposal of Stansted	**292**	**(292)**	**-**	**-**	**-**	**-**
Financing						
Finance income	236	**-**	**-**	(7)	-	229
Finance costs	(880)	3	-	(2)	-	(879)
Fair value loss on financial instruments	(81)	-	-	-	-	(81)
	(725)	**3**	**-**	**(9)**	**-**	**(731)**
Profit before tax	**426**	**(289)**	**64**	**1**	**-**	**202**
Taxation before change in tax rate	(65)	4	(1)	-	27	(35)
Change in tax rate	28	-	19	-	105	152
Taxation	**(37)**	**4**	**18**	**-**	**132**	**117**
Profit for the year from continuing operations	**389**	**(285)**	**82**	**1**	**132**	**319**
Profit from discontinued operations	-	274	-	-	182	456
Consolidated profit for the year	**389**	**(11)**	**82**	**1**	**314**	**775**
Other comprehensive income						
Cash flow hedges	-	-	-	-	-	163
Tax	-	-	-	-	-	(10)
Other comprehensive income net of tax	-	-	-	-	-	153
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**928**

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

32 Transition to IFRS *continued*

Reconciliation of total comprehensive income

	Year ended 31 December 2014					
	Group under UK GAAP £m	Discontinued operations £m	Fair value movement on investment properties £m	Retirement benefits £m	Deferred tax £m	Group under IFRS £m
	Note A	Note C	Note E, F	Note G	Note F	
Continuing operations						
Revenue	2,692	-	-	-	-	2,692
Operating costs	(1,915)	-	2	14	-	(1,899)
Other operating items						
Fair value gain on investment properties	-	-	46	-	-	46
Operating profit	**777**	**-**	**48**	**14**	**-**	**839**
Analysed as:						
Operating profit before exceptional items	993	-	48	-	-	1,041
Exceptional items	(216)	-	-	14	-	(202)
Profit on disposal of Stansted	**3**	**(3)**	**-**	**-**	**-**	**-**
Financing						
Finance income	246	**-**	**-**	(12)	-	234
Finance costs	(1,036)	-	-	(2)	-	(1,038)
Fair value gain/(loss) on financial instruments	(154)	-	-	-	-	(154)
	(944)	**-**	**-**	**(14)**	**-**	**(958)**
(Loss)/profit before tax	**(164)**	**(3)**	**48**	**-**	**-**	**(119)**
Taxation before change in tax rate	14	-	(17)	-	24	21
Change in tax rate	-	-	-	-	-	-
Taxation	**14**	**-**	**(17)**	**-**	**24**	**21**
(Loss)/profit for the year from continuing operations	**(150)**	**(3)**	**31**	**-**	**24**	**(98)**
Profit from discontinued operations	-	3	-	-	-	3
Consolidated (loss)/profit for the year	**(150)**	**-**	**31**	**-**	**24**	**(95)**
Other comprehensive income						
Cash flow hedges	**-**	**-**	**-**	**-**	**-**	**(11)**
Tax	**-**	**-**	**-**	**-**	**-**	**(3)**
Other comprehensive loss net of tax	**-**	**-**	**-**	**-**	**-**	**(14)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(109)**

32 Transition to IFRS continued

Explanation of transition adjustments

Note A

These balances are as presented in the statutory annual report and financial statements of the Group under UK GAAP but aligned with IFRS headings prior to presentational adjustments required to comply with IFRS.

Note B

Presentational adjustments to the statement of financial position on transition to IFRS

On transition to IFRS, the Group has reclassified the following items:

- investment properties – in accordance with IFRS all land and buildings that are owned by but not in use within the Group and are held to earn rentals and/or for capital appreciation are separately classified and therefore not included within property, plant and equipment;
- software – IFRS requires that software costs are capitalised as intangible assets and separately classified from property, plant and equipment;
- current asset investments – under IFRS, 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. Balances reported under UK GAAP as current asset investments have therefore been reclassified as cash and cash equivalents;
- non-current and current assets and liabilities – IFRS requires all assets and liabilities to be presented on a non-current and current basis. Balances reported under UK GAAP such as the following have been reclassified accordingly:
    - within current assets, debtors due after more than one year; and
    - within creditors falling due after more than one year, provisions payable within one year;
- interest accruals – under IFRS, this is included within current borrowings and not separately within creditors under UK GAAP;
- revaluation reserves – fair value gains and losses on investment properties are recorded in the income statement under IFRS in contrast to the revaluation reserves under UK GAAP. As a result, all revaluation reserves have been reclassified to retained earnings under IFRS.

Note C

Held-for-sale adjustments to the income statement on transition to IFRS

Under UK GAAP, the presentation of discontinued operations are only shown separately in the profit and loss account in the year of disposal or before the earlier of three months after the year end and the date when the financial statements are signed. As a minimum, the results of discontinued operations from revenue to operating profit continues to be shown on the face of the profit and loss account. The concept of 'held-for-sale' does not exist.

Under IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', discontinued operations represent components of the Group that have been classified as held-for-sale or disposed of during the year. Classification as held-for-sale is dependent on the operations being available for immediate sale, with the sale being highly probable and expected to occur within one year from the date of classification. The sale is considered to be highly probable once there is a board approval and an expectation of the disposal has been raised in those directly affected by the disposal. When these conditions are met, the net assets of the discontinued operations are carried at the lower of carrying value and fair value less costs to sell and no depreciation is charged following the classification as held-for-sale. The results and cash flows of discontinued operations are reported separately from the performance of continuing operations at each reporting date, at the foot of the income statement, within current assets and current liabilities in the statement of financial position and at the end of each section in the statement of cash flows.

Following transition to IFRS, Stansted airport was reclassified as held-for-sale in 2012 in line with the treatment followed in the other FGP Topco Limited group financial statements prepared under IFRS at the time. During the year ended 31 December 2012, this resulted in £18 million profit after tax being transferred to the discontinued operations category and a further gain due to the reversal of a net £11 million of depreciation and tax that had been charged under UK GAAP. During the year ended 31 December 2013, £456 million profit after tax was transferred to the discontinued operations category. This related mainly to the profit on disposal on the sale of Stansted.

Note D

As noted above, the deemed cost of certain operational land on transition to IFRS has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Group occupied assets and included the terminals and airfields. It did not relate to land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence. The methodology used was based on an alternative use, income-based approach for a gross area of approximately 1,895 acres, a 50/50 split between commercial and residential development, a 25 year timeframe and a discount rate of 10%. This resulted in a one-off valuation uplift in the value of airfield assets in property, plant and equipment of £360 million.

32 Transition to IFRS continued
Explanation of transition adjustments continued

Note E
Under UK GAAP, Statement of Standard Accounting Practice ('SSAP') 19 'Accounting for investment properties' requires fair value movements on investment properties to be recorded through reserves. It also excludes from within its scope interests in land and/or buildings for which construction work and development has not been completed.

However under IFRS, IAS 40 'Investment Property' requires fair value movements to be recorded in the income statement and its scope specifically includes property that is being constructed or developed for future use as investment property.

Following transition to IFRS, this change resulted in a fair value gain of £50 million being recorded in the income statement for continuing operations, £47 million of which was previously recognised under UK GAAP in reserves and an additional £3 million relating to assets in the course of construction. In addition, a £9 million fair value loss was recorded in the income statement for discontinued operations, all of which had been previously recognised under UK GAAP in reserves. For the year ended 31 December 2013, a fair value gain of £64 million was recorded in the income statement for continuing operations, £29 million of which was previously recognised under UK GAAP in reserves, £33 million related to assets in the course of construction and £2 million related to impairments on investment properties that had previously been reported within depreciation in operating costs. For the year ended 31 December 2014, a fair value gain of £48 million was recorded in the income statement; £80 million was recognised under UK GAAP in reserves, a £34 million loss related to assets in the course of construction and £2 million related to impairments previously reported within depreciation in operating costs.

Note F
Under UK GAAP deferred tax is recognised on timing differences arising in the income statement. Timing differences arise from the inclusion of items of income and expenditure in the taxation computations in periods different from those in which they are included in the financial statements.

Under IFRS, IAS 12 'Income Taxes' requires full provision for all taxable temporary differences unless specifically exempted. IAS 12 takes a balance sheet approach to deferred tax whereby deferred tax is recognised in the statement of financial position by applying the appropriate tax rate to the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements.

On transition to IFRS, deferred income tax was recognised for items that were not required under UK GAAP such as operational land, investment properties and the abolition of Industrial Buildings Allowance. The total increase in deferred income tax liabilities on transition was £1,357 million, of which £43 million related to the fair value uplift on operational land, £318 million related to deferred income tax on investment property revaluation surpluses and £996 million related to the effect of the abolition of Industrial Buildings Allowance. At 31 December 2013, the total increase in deferred income tax liabilities was £880 million, of which £32 million related to the fair value uplift on operational land, £184 million related to deferred income tax on investment property revaluation surpluses and £664 million related to the effect of the abolition of Industrial Buildings Allowance. At 31 December 2014, the total increase in deferred income tax liabilities was £872 million, of which £30 million related to the fair value uplift on operational land, £202 million related to deferred income tax on investment property revaluation surpluses and £640 million related to the effect of the abolition of Industrial Buildings Allowance. For deferred income tax purposes the operational land has been treated as one asset. The deferred tax liability has been calculated as the valuation less the indexed base cost.

Movements in deferred income tax in each of the above have been reflected both in the income statement and in equity, and also include the impact of the change in the corporation tax rate from 25% at 1 January 2012 to 23% at 31 December 2012 and to 20% at 31 December 2013.

In terms of the income statement, for the year ended 31 December 2012, an additional £120 million credit was recorded in the income statement for continuing operations resulting in an overall £112 million credit. The resulting £112 million credit can be split between a tax credit of £7 million on ordinary activities and change in tax rate giving rise to a credit of £105 million.

For the year ended 31 December 2013, an additional £154 million credit was recorded in the income statement for continuing operations resulting in an overall £117 million credit. The resulting £117 million credit can be split between a tax charge on ordinary activities of £35 million and change in tax rate giving rise to a credit of £152 million. In addition in this year there was an adjustment to the profit on disposal from discontinued operations for tax of £182 million reflecting additional deferred tax liabilities on an IFRS basis.

For the year ended 31 December 2014, an additional £7 million credit was recorded in the income statement for continuing operations, resulting in an overall £21 million credit.

32 Transition to IFRS continued
Explanation of transition adjustments continued

Note G
Under UK GAAP, the Group recognised its share of the net interest cost and expected return on plan assets relating to the LHR Airports Limited defined benefit pension scheme. The interest receivable on the plan assets was recognised based on the long-term expected rates of return on the plan assets. A different rate, the discount rate, was used to unwind the defined benefit obligation.

Under IFRS, IAS 19 'Employee Benefits (2011)' a net discount rate is used to unwind the net defined benefit obligation.

Following the transition to IFRS, the lower expected return on assets reduced the level of pension income that was recognised within finance costs in the income statement for the year ended 31 December 2012 by £13 million. The amount charged to exceptional operating costs and ordinary operating costs for pensions fell by £10 million and £3 million respectively. During the year ended 31 December 2013, the reduced level of pension income recognised within finance costs was £9 million and the amount charged to exceptional operating costs reduced by £10 million. During the year ended 31 December 2014, the reduced level of pension income recognised within finance costs was £14 million and the amount charged to exceptional operating costs reduced by £14 million.

There was no change in the statement of financial position or cash flow as a result of this change.

Under UK GAAP, FRS 3 'Reporting Financial Performance' requires a statement of total recognised gains and losses and a reconciliation of movements in shareholder's funds. Under IFRS these have been replaced by a statement of comprehensive income and a statement of changes in equity resulting in certain presentational differences.

Statement of cash flows
The Group's underlying cash position is unaffected by the transition to IFRS. However, there are a number of presentational and classification differences arising in the cash flows reported under IAS 7 'Statement of Cash Flows' where movements in cash and cash equivalents are reconciled. Under UK GAAP current asset investments were classified as management of liquid resources but under IFRS they are considered to be part of cash and cash equivalents.

Cash flows from discontinued operations are shown separately under IFRS in each of the three categories of cash flows that are available under IFRS.

Other disclosures provided under UK GAAP are not required in IFRS, such as the reconciliation to net debt. However IFRS requires a reconciliation of cash and cash equivalents in the statement of cash flows to the cash reported in the statement of financial position.

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

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

Registered office
Heathrow (SP) Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England Number: 06458621

Heathrow (SP) Limited

Independent auditor's report to the members of Heathrow (SP) Limited

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

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and Directors' reports for the financial year for which the 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 financial statements of Heathrow (SP) Limited for the year ended 31 December 2014.

Jacqueline Holden

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

20 February 2015

Heathrow (SP) Limited

Company balance sheet as at 31 December 2014

	Note	**31 December 2014 £m**	31 December 2013 £m
Fixed assets			
Investments in subsidiaries	*2*	**7,374**	6,046
Current assets			
Debtors	*3*	**20**	21
Cash at bank and in hand		**1**	-
		21	21
Creditors: amounts falling due within one year	*4*	**(72)**	(67)
Net current liabilities		**(51)**	(46)
Total assets less current liabilities		**7,323**	6,000
Creditors: amounts falling due after more than one year	*5*	**(2,798)**	(2,632)
Net assets		**4,525**	3,368
Capital and reserves			
Called up share capital	*6*	**11**	11
Share premium reserve	*7*	**499**	499
Profit and loss reserve	*8*	**4,015**	2,858
Total shareholder's funds		**4,525**	3,368

The financial statements of Heathrow (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 20 February 2015. They were signed on its behalf by:

José Leo
Director

Andrew Efiong
Director

Accounting policies for the year ended 31 December 2014

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

Basis of preparation
These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')).

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, as part of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group'), has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the Heathrow Airport Holdings Group, the level at which financial risks are managed for the Company.

Consequently the Directors have reviewed the cash flow projections of the Heathrow Airport Holdings Group taking into account:

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Heathrow Airport Holdings 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.

Whilst the Company 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 Company's funding requirement for the next twelve months from the balance sheet signing date.

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

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

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

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

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

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

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

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

Accounting policies for the year ended 31 December 2014 *continued*

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

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

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

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.

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

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are related to, or part of, the FGP Topco Limited group.

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

1 Company result for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £1,602 million (2013: £521 million).

2 Investments in subsidiaries

	£m
Cost	
1 January 2014 and 31 December 2014	7,374
Impairment	
1 January 2014	(1,328)
Impairment reversal	1,328
Net book value 31 December 2014	**7,374**
Net book value 31 December 2013	6,046

The Company's principal subsidiary undertakings are Heathrow (AH) Limited, which is incorporated in Great Britain and registered in England and Wales, and Heathrow Funding Limited, which is incorporated in Jersey, Channel Islands. Details of the principal subsidiary undertakings of the Group are provided in Note 31 of the Heathrow (SP) Limited group financial statements.

The impairment provision in respect of the Company's investment in subsidiary has been reversed in 2014 as a result of a favourable change in the economic assumptions in the period since the provision was made, which has increased the equity value of the subsidiary.

3 Debtors

	31 December 2014 £m	31 December 2013 £m
Due within one year:		
Group relief receivable	**20**	21
Total debtors	**20**	21

4 Creditors: amounts falling due within one year

	31 December 2014 £m	31 December 2013 £m
Amounts owed to group undertakings - interest payable[1]	**72**	67

[1] Includes interest payable of £51 million (2013: £49 million) to Heathrow Airport Limited and £21 million (2013: £18 million) to Heathrow Finance plc.

5 Creditors: amounts falling due after more than one year

	31 December 2014 £m	31 December 2013 £m
Amounts owed to group undertakings - interest bearing	**1,762**	1,761
Debenture payable to Heathrow Finance plc	**1,036**	871
	2,798	2,632

Amounts owed to group undertakings – interest bearing represents loan payable to Heathrow Airport Limited of £1,762 million (2013: £1,761 million). All loans have a fixed interest rate of 7.57% (2013: 7.57%).

The debenture payable to Heathrow Finance plc is used by the entity to pay the interest on its bond and loan facilities. As at 31 December 2014, the rate on the debenture was 6.30% (2013: 6.28%).

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

6 Share capital

	£
Authorised	
At 1 January 2014 and 31 December 2014: 9,000,000,000 ordinary shares of 0.19p each	**17,100,000**
Called up, allotted and fully paid	
In issue at 1 January 2014 and 31 December 2014: 5,773,555,178 ordinary shares of 0.19p each	**10,969,755**

7 Share premium reserve

	£m
1 January 2014 and 31 December 2014	**499**

8 Profit and loss reserve

	£m
1 January 2014	2,858
Profit for the financial year	1,602
Dividends paid[1]	(445)
31 December 2014	**4,015**

[1] During the year ended 31 December 2014, the Company paid dividends of £445 million to Heathrow Finance plc being £65 million on 21 February 2014, £79 million on 27 June 2014, £66 million on 25 July 2014, £85 million on 23 September 2014 and £150 million on 19 December 2014.

9 Auditor's remuneration

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

Details of fees for other services are provided in Note 1 of the Heathrow (SP) Limited group financial statements.

10 Employee information and directors' remuneration

Employee numbers

The Company has no employees (2013: nil).

Directors' remuneration

Details of directors' remuneration for the year are provided in Note 2 of the Heathrow (SP) Limited group financial statements.

11 Ultimate parent undertaking

The immediate parent undertaking is Heathrow Finance plc, a company registered in England and Wales.

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

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

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