LHR Airports Limited

Annual report and financial statements for the year ended 31 December 2015

Company registration number: 01970855

LHR Airports Limited

Contents

LHR Airports Limited

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LHR Airports Limited

Strategic report

LHR Airports Limited (the 'Company') is an indirect subsidiary of Heathrow Airport Holdings Limited which is the parent undertaking of the smallest group to consolidate these financial statements (the 'Heathrow Airport Holdings Group' or 'HAH Group').

Principal activities
The Company is the parent company of Heathrow (DSH) Limited and an indirect holding company of Heathrow (SP) Limited. Heathrow (SP) Limited is the parent company within a ring-fenced group that owns Heathrow airport ('Heathrow') and the Heathrow Express rail link between Heathrow and Central London. The principal activity of the Company is to provide, or source service providers, for Heathrow Airport Limited ('HAL') and Heathrow Express Operating Company Limited.

The Company provides limited corporate and centralised services to these companies through Shared Services Agreements ('SSA').

For the year ended 31 December 2015 the Company has made a number of changes to the presentation of the financial statements, including the assessment of the Company's relationship with HAL as an agent, prompted by the 2014 sale of Aberdeen, Glasgow and Southampton airports by the HAH Group. Please refer to the turnover accounting policy on pages 25-26 which explains in more detail the concept of principal and agent under which the Company now operates.

This Strategic report is presented in five sections:

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

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

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2015 and analysis of the financial position of the Company as at that date;

Leadership and Governance – description of the Board of Directors (the 'Board') of Heathrow Airport Holdings Limited and Committees of the Board which provide overall leadership to the HAH Group; and

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

Business overview

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

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

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

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

Business overview *continued*

Our strategy *continued*

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

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

Our priorities

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

Transform customer service

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

Beat the plan

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

Heathrow expansion

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

Mojo

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

Our regulatory environment

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

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

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

The Price Cap

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

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

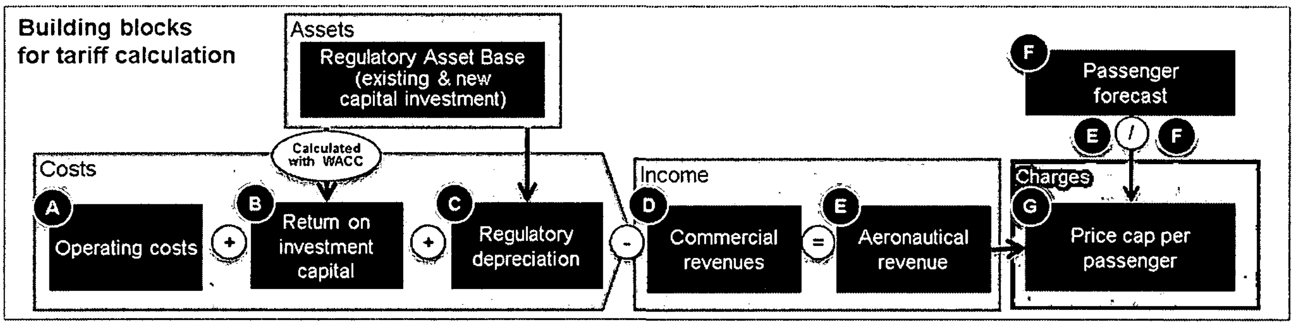
Strategic report *continued*

Business overview *continued*

Our regulatory environment *continued*

The Price Cap continued

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



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

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

While the price cap places a limit on the increase in the airport charges yield, Heathrow has the discretion on whether to price to the maximum permitted level. Therefore, Heathrow can choose to price charges below the cap. For example, if there is unused capacity, Heathrow could choose to set prices below the cap in order to stimulate demand.

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

Our income

Heathrow generates two primary types of income: aeronautical income, which is generated from fees charged to airlines for use of the airport's facilities, including passenger fees, landing charges and aircraft parking charges, and non-aeronautical income from a variety of sources, including concession fees from retail operators, direct income from car parks and advertising and income from other services supplied by Heathrow.

Aeronautical income

Aeronautical income reflects the charges levied by Heathrow on the airport's airline customers. These charges (tariffs) cannot exceed the regulated maximum allowable yield per passenger. The tariff structure through which the aeronautical income is recovered from airlines includes three key elements:

Passenger fees

- Fees per passenger are based on the number of passengers on board an aircraft, and are levied in respect of all departing passengers.

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

Landing charges

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

Parking charges

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

Strategic report *continued*

Business overview *continued*

Our regulatory environment *continued*

The Price Cap continued

Non-aeronautical income

Heathrow generates non-aeronautical income from a variety of sources. These include concession fees from retail operators; income from car parks, advertising revenue and VIP products; the rental of airport premises such as aircraft hangars, cargo storage facilities, maintenance facilities and offices; the provision of facilities such as baggage handling and passenger check-in; and fare revenue from the operation of the Heathrow Express rail service.

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

Terminals

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

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

Baggage systems

In parallel with the work on Heathrow's terminals, significant investment continues in Heathrow's baggage infrastructure. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational, and the Terminal 3 integrated baggage system started operating in March 2015 and is expected to be fully operational in May 2016.

Cargo and mail carriers

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

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

Management review

Review of the year

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

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

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

Our focus on transforming customer service has covered all aspects of the airport. Passengers are enjoying faster journeys through the airport, with reducing queue times due to more security lanes and parallel loading, improved body scanners and new biometric passport gates in immigration. Our new baggage facility in Terminal 3 helps reduce connection times. We have also been making our operations more efficient and robust. We have introduced technology and procedures to improve our resilience, including enhanced Instrument Landing Systems which assist in low visibility and time-based separation of arriving aircraft to facilitate more landings on windy days. These measures allow a more punctual and complete schedule to be operated, disrupting fewer passenger journeys.

Passengers now have unrivalled choice from our award winning retail offering with expanded World Duty Free outlets and new stores including Chanel, Louis Vuitton and Hermes. We also opened a new business car park and independent lounges in Terminals 4 and 5.

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

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

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

Management review *continued*

Review of the year continued

Passenger traffic

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

Passengers by geographic segment (millions)	**Year ended 31 December 2015**	Year ended 31 December 2014	Change[1] %
UK	**5.1**	5.3	(2.7)
Europe	**31.2**	30.0	3.9
North America	**17.3**	17.0	1.7
Asia Pacific	**10.5**	10.4	0.3
Middle East	**6.4**	6.0	5.8
Africa	**3.3**	3.5	(6.5)
Latin America	**1.2**	1.1	8.3
Total passengers[1]	**75.0**	73.4	2.2

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

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

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

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

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

Transforming customer service

Heathrow delivered its best ever passenger service in 2015 and 81% of passengers surveyed rated their overall experience as 'Excellent' or 'Very Good' (2014: 78%). For eight successive quarters Heathrow has achieved a service quality score above 4.00 culminating in its highest ever quarterly score of 4.13 in the fourth quarter of 2015.

Heathrow is first among major European hub airports for service quality, as measured in the independent Airport Service Quality survey directed by Airports Council International (ACI). The high service standards have resulted in Heathrow being named 'Best Airport in Western Europe' for the first time at the Skytrax World Airport Awards. The award, voted for globally by passengers, came in addition to Terminal 5 being voted the world's 'Best Airport Terminal' for the fourth year in a row and Heathrow being voted 'Best Airport for Shopping' for the sixth consecutive year. Heathrow was also awarded ACI Europe's prestigious Best Airport Award for the second time.

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

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

Management review *continued*

Transforming customer service continued

delivery of a more complete schedule, better punctuality and fewer disrupted passengers.

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

Beating the plan

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

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

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

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

Investing in Heathrow

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

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

Responsible Heathrow

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

Heathrow's Blueprint for Reducing Emissions sets out a ten-point plan for working with partners to reduce emissions from aircraft, vehicles and buildings, as well as being a catalyst to support Heathrow to fulfil its commitment to play its part in meeting EU and UK Government air quality limits in the local area around Heathrow. The area immediately surrounding Heathrow meets air quality limits and in the latest five year survey, Heathrow had reduced total nitrogen oxide (NOx) emissions by 16% and is leading the way for the airport community by cutting emissions from its own fleet vehicles, changing diesel pool cars to electric cars and installing electric vehicle infrastructure in 2015. In September

Management review *continued*

Responsible Heathrow continued

2015, Heathrow signed an open letter calling for governments to support the aviation industry approach to climate change, including improved efficiency in air traffic management, accelerating research on alternative fuels and new technology. Heathrow has completed a programme to replace over 70,000 lights across the airport with LED lamps and continues to drive down energy demand through energy efficient technology and building management systems. Heathrow is also developing innovative, high performance, carbon free energy supply options for the future.

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

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

Winning support for expansion

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

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

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

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

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

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

LHR Airports Limited

Strategic report *continued*

Financial review

Introduction
The following financial review, based on the financial results of the Company, provides commentary on the performance of the Company's operations.

Basis of presentation of financial results
LHR Airports Limited accounts are prepared by the directors in accordance with FRS102 for the first time; the transition date being 1 January 2014.

Restructuring costs are now reported within employment costs rather than as an exceptional item in the profit and loss account (2015: £11 million and 2014: £8 million). As this is being applied to 2014, the previously reported pre-exceptional Operating costs have been restated accordingly.

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Turnover	**21**	456
Operating costs – ordinary	**(20)**	(456)
Operating gain – exceptional	**-**	201
Operating profit	**1**	201
Net interest receivable and similar income	**353**	649
Fair value gain on financial instruments	**-**	1
Other income	**213**	852
Profit on ordinary activities before taxation	**567**	1,703
Tax credit on profit on ordinary activities	**16**	95
Profit on ordinary activities after taxation	**583**	1,798

Agent versus principal judgement
From 1 January 2015 the Company is now only viewed by management as acting as principal in relation to the services of the Heathrow Airport Holdings Limited Board members and Ferrovial advisory services. These costs will continue to be recharged to Heathrow Airport Limited (the only remaining airport party to the SSA) with a mark-up of 7.5%. Other services such as the employment related costs including the defined benefit pension scheme costs are now paid for and sourced directly by Heathrow Airport Limited, either without the Company's involvement or on a pass through fixed mark up only basis with the Company acting as an agent. This judgement has been reached following consideration of whether the Company has been exposed to the majority of the significant benefits and risks associated with the transaction.

It should also be noted that although employees remain legally employed by the Company, HAL management make all employment decisions.

The agent versus principal judgement is responsible for the significant year on year variances evidenced in the financial review. There is no impact on cash or net assets as a result of this change, only in the presentation of the financial statements.

Turnover
Turnover decreased to £21 million (2014: £456 million). Turnover is derived mostly from recharging Heathrow Airport Limited and Heathrow Express Operating Company Limited for central support services.

Operating costs – ordinary
Ordinary operating costs decreased to £20 million (2014: £464 million) for the year ended 31 December 2015.

Operating gain - exceptional
There were no exceptional operating gains in the year (2014: £201million). Until the year ended 31 December 2014 Heathrow Airport Limited and Heathrow Express Operating Company Limited recorded their share of the net actuarial gain or loss for the year as an exceptional item. Changes in arrangements for pension cost recharges took effect from 1 January 2015 as discussed fully in the accounting policies section on pages 27 and 28.

Net interest receivable
Net interest receivable has decreased to £353 million (2014: £649 million) for the year ended 31 December 2015, in line with the related intercompany receivable which was considerably reduced on 31 October 2014.

Strategic report *continued*

Financial review *continued*

Fair value movements on financial instruments
A fair value gain of £nil (2014: £1 million gain) on financial instruments has been recognised in the profit and loss account. In 2014 the fair value gain was principally due to the increase in the value of equity swaps; however, these equity swaps have now all matured.

Other income
Other income chiefly relates to dividends received from Heathrow (DSH) Limited.

Pension scheme
Please refer to the accounting policies on page 27 for details of the change in accounting presentation in relation to retirement benefit schemes. This change is as a consequence of the disposal of Aberdeen, Glasgow and Southampton airports in December 2014 by the HAH Group.

Employee numbers
In 2015 the average number of employees was seven (2014: 7,403). Following the disposal of Aberdeen, Glasgow and Southampton airports (together the 'NDH1 Group') in December 2014 the directors reassessed the relationship between the HAH Group airport operations and the Company. The Company is now, in substance, an agent for Heathrow Airport Limited and not principal, therefore employees providing services to the operation of the airport are now reported in the 2015 financial statements of Heathrow Airport Limited.

Leadership and governance

The discussion in this section is extracted from the financial statements of Heathrow Airport Holdings Limited, since the functions of the Board 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 and three shareholder Non-Executive Directors, who also attend the Board.

The Audit Committee is a sub-committee of the Board of Directors of Heathrow Airport Holdings Limited and its responsibilities include:

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

Nomination Committee

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

The Nomination Committee is a sub-committee of the Heathrow Airport Holdings Limited Board of Directors and its responsibilities include:

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

Remuneration Committee of Heathrow Airport Holdings Limited

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

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

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

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.

Strategic report *continued*

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 and a Non-Executive Director representing each shareholder entitled to appoint a director to the Board.

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

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

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

Responsible Heathrow and Operational Risk Committee

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

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

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

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

Internal controls

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

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

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

Risk management

The principal risks identified by the Executive Committee are:

Safety and security

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

The company'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 company's business. The company 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 company works closely with airlines and government agencies including the police building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

Strategy, regulation and competition

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

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

Internal controls and risk management *continued*

Strategy, regulation and competition continued

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

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

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

Operational resilience

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

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

Corporate social responsibility

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

The HAH Group undertakes procurement responsibly and encourage trade and employment opportunities with the local communities. Progressive influencing of third parties, stakeholders engagement and community relations programmes are also established.

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

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

Management of change

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

Strategic report *continued*

Internal Controls and risk management *continued*

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 HAH Group are:

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

(b) Inflation
The HAH 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 HAH Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The HAH 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 HAH 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 HAH Group is not exposed to excessive refinancing risk in any one year.

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

(e) Counterparty credit
The HAH 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 HAH Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F2. The HAH 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

Carol Hui
Director
29 June 2016

Company registration number: 01970855

LHR Airports Limited

Directors' report

The Directors present their annual report and the audited financial statements for LHR Airports Limited (the 'Company') for the year ended 31 December 2015.

A review of the progress of the Company's business during the year, internal controls and risk management, principal business risks and likely future developments are contained in the Strategic report on page 2 to 15.

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

The Company assessed the options available and decided to adopt FRS 102 due to the low level of complexity in its disclosures. Accordingly, these are the Company's first financial statements prepared in accordance with FRS 102, for which the transition date was 1 January 2014. Transition to FRS 102 resulted in an adjustment in respect of deferred taxation which is explained in note 17.

The accounting policies (disclosed in the Accounting policies section) have been applied in preparing these financial statements for the year ended 31 December 2015, the comparative information for the year ended 31 December 2014, and in the preparation of an opening FRS 102 balance sheet at 1 January 2014.

Results and dividends
The profit after taxation for the financial year amounted to £583 million (2014: £1,798 million).

During the year ended 31 December 2015, the Company received dividends of £213 million (2014: £2,442 million) and paid dividends of £232 million (2014: £4,014 million) to its parent, Heathrow Holdco Limited, contributing to quarterly dividends of £300 million to ultimate shareholders and £16 million of interest on external debt at ADI Finance 2 Limited.

Directors
The Directors who served during the year and since the year end, except as noted, are as follows:

Ian Ballentine	
Stuart Birrell	Appointed 1 July 2015
Normand Boivin	
Neil Clark	Resigned 31 March 2015
Emma Gilthorpe	
Clare Harbord	
John Holland-Kaye	
Carol Hui	
Jose Leo	Resigned 25 March 2015
Paula Stannett	
Michael Uzielli	Appointed 9 June 2015, resigned 17 May 2016

Employment policies
The Company has seven employees.

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

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

The Company 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 Company actively encourages a diverse range of applicants and commits to fair treatment of all applicants. The Company's investment in learning and development is guided by senior line managers who ensure that the Company provides the learning opportunities to support the competencies that are seen as key to the Company's success.

Directors' report *continued*

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Company 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 Company 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 Company complies with the UK government's Better Payment Practice Code which states that responsible companies should:

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

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

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

Statement of disclosure of information to the Auditors
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

Carol Hui
Director

29 June 2016

Company registration number: 01970855

LHR Airports Limited

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice and within the guidelines of Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'(FRS 102') Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

Carol Hui
Director

29 June 2016

Independent auditor's report to the members of LHR Airports Limited

We have audited the financial statements of LHR Airports Limited for the year ended 31 December 2015 which comprise the Profit and loss account, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

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

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 102; 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 Directors' report and Strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

29 June 2016

LHR Airports Limited

Profit and loss account for the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
Turnover	*1*	**21**	456
Operating costs - ordinary	*2*	**(20)**	(456)
Operating gain - exceptional	*3*	**-**	201
Total operating costs		**(20)**	(255)
Operating profit		**1**	201
Interest receivable and similar income	*4*	**374**	712
Interest payable and similar charges	*4*	**(21)**	(63)
Fair value gain on financial instruments		**-**	1
Other Income	*5*	**213**	852
Profit on ordinary activities before taxation		**567**	1,703
Tax credit on profit on ordinary activities	*6*	**16**	95
Tax credit on profit on ordinary activities		**16**	95
Profit on ordinary activities after taxation		**583**	1,798

LHR Airports Limited

Statement of comprehensive income for the year ended 31 December 2015

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit for the financial year		**583**	1,798
Other comprehensive income:			
Deferred tax credit on items transferred directly to equity[1]		-	40
Other net recognised losses relating to the year:			
Actuarial loss (gross of deferred tax)[2]		-	(201)
Other gain[3]		5	1
Other comprehensive income/(loss) for the year net of tax		**5**	(160)
Total comprehensive income for the year		**588**	1,638

1 This refers to a deferred tax credit of £40 million relating to retirement benefit obligations and unfunded pension scheme obligations in 2014.
2 This comprises, in respect of the year ended 31 December 2014, a £198 million actuarial loss relating to the BAA Defined Benefit pension scheme and a £3 million actuarial loss relating to the UURBS and PRM schemes.
3 This relates to a £5 million gain in the value of the available for sale investment in the National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider.

LHR Airports Limited

Statement of financial position as at 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Fixed assets			
Tangible assets	7	**2**	2
Investments in subsidiaries	8	**3,841**	3,841
Available for sale investments	8	**31**	26
Total fixed assets		**3,874**	3,869
Current assets			
Debtors – due within one year	9	**802**	645
Debtors – due after one year	9	**5,809**	5,819
Cash at bank and in hand	10	**12**	30
Total current assets		**6,623**	6,494
Current liabilities			
Creditors: amounts falling due within one year	11	**(200)**	(208)
Net current assets		**6,423**	6,286
Total assets less current liabilities		**10,297**	10,155
Creditors: amounts falling due after more than one year	12	**(1,286)**	(1,268)
Provisions for liabilities and charges	13	**(9)**	(241)
Net assets		**9,002**	8,646
Capital and reserves			
Other reserves	16	**48**	43
Profit and loss reserve		**8,954**	8,603
Total shareholder's funds		**9,002**	8,646

The financial statements of LHR Airports Limited (Company registration number: 01970855) were approved by the Board of Directors and authorised for issue on 29 June 2016. They were signed on its behalf by:

Carol Hui
Director

John Holland-Kaye
Director

LHR Airports Limited

Statement of changes in equity for the year 31 December 2015

	Share capital £m	Share premium £m	Other Reserves £m	Profit and loss reserve £m	Total £m
1 January 2014	1,567	325	45	9,085	11,022
Profit for the financial year				1,798	1,798
Other comprehensive income:					
Deferred Tax credit on items transferred directly to equity				40	40
Other net recognised losses relating to the year:					
Actuarial loss (gross of deferred tax)				(201)	(201)
Other gain				(2)	(2)
Total comprehensive income				1,635	1,635
Transfer to revaluation reserve					
Available for sale investment fair value movement			(2)	2	-
Other movement in profit and loss reserve				3	3
Transactions with owners					
Dividends paid [1]				(4,014)	(4,014)
Reduction of share capital[2]	(1,567)	(325)		1,892	-
Total transactions with owners	(1,567)	(325)	-	(2,122)	(4,014)
At 31 December 2014	-	-	**43**	**8,603**	**8,646**
Profit for the financial year			-	**583**	**583**
Other comprehensive income:					
Other gain				**5**	**5**
Total comprehensive income	-	-	-	**588**	**588**
Transfer to revaluation reserve					
Available for sale investment fair value movement			**5**	**(5)**	-
Transactions with owners					
Dividends paid [3]			-	**(232)**	**(232)**
Total transactions with owners			-	**(232)**	**(232)**
At 31 December 2015			**48**	**8,954**	**9,002**

1 During the year ended 31 December 2014, the Company paid dividends of £4,014 million to Heathrow Holdco Limited, being £63 million cash on 21 February 2014, £79 million cash on 27 June 2014, £66 million cash on 25 July 2014, £3,500 million non-cash on 31 October 2014, £87 million cash on 17 December 2014 and £219 million cash on 18 December 2014.

2 On 31 October 2014, the Company undertook a capital reduction supported by solvency statement in accordance with Companies Act 2006 sections 642 to 644, in order to reduce its share capital and cancel its share premium in full for the purpose of creating distributable reserves.

3 During the year ended 31 December 2015, the Company paid dividends of £232 million to Heathrow Holdco Limited, being £70 million cash on 27 February 2015, £87 million cash on 30 June 2015 and £75 million cash on 24 July 2015.

Accounting policies for the year ended 31 December 2015

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

Basis of accounting
These financial statements have been prepared and approved by the directors in compliance with Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102') and with the Companies Act 2006.

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

Transition to FRS 102
These financial statements were prepared by the directors in accordance with FRS 102 for the first time. The transition date from the previous financial reporting framework to FRS 102 was 1 January 2014. FRS 102 grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to FRS 102.

The Company has taken advantage of certain disclosure exemptions in FRS 102 as its financial statements are included in the publicly available consolidated financial statements of FGP Topco Limited. These disclosure exemptions relate to the statement of cash flows and related party transactions. Copies of those consolidated financial statements may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

The Company has adopted IAS 39 *Financial instruments* in respect of its available for sale investment and is compliant with the disclosure requirements set out in FRS 102.11 and FRS 102.12.

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 which is the smallest group to consolidate these financial statements and the level at which the 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 the projected upstreams of cash remaining committed and uncommitted facilities available to it, its scheduled debt maturities, and its forecast financial ratios and its ability to access debt markets.

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

Consolidated financial statements
The Company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of FGP Topco Limited and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2015. The results are also included in the consolidated financial statements of Heathrow Airport Holdings Limited ('HAHL'), which is the smallest group to consolidate these financial statements for the year ended 31 December 2015.

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

Turnover
The Company acts as either principal or agent in transactions into which it enters. Turnover as shown in the Profit and loss account consists of amounts due where the Company has exposure to the risks and rewards associated with the sale of goods, rendering of services and agency commission.

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

Turnover *continued*
Following the disposal of Aberdeen, Glasgow and Southampton airports in December 2014 by the HAH Group, the Company is now viewed by management as acting as principal in relation to the services of the board members of HAHL and Ferrovial advisory services. These costs will continue to be recharged to Heathrow Airport Limited (the only remaining airport party to the SSA) with a mark-up of 7.5%. For these costs the Company has included the gross amount of its sales revenues within Turnover and the associated costs have been included within Operating Costs, both within the Profit and loss account. Other services are now paid for and sourced directly by Heathrow Airport Limited, either without the Company's involvement or on a pass through fixed mark up only basis. Therefore, since the substance of the transaction is that the Company is acting as agent, it should report as turnover only the mark up receivable in return for its performance under the SSA.

This judgement has been reached following consideration of whether the Company has been exposed to the majority of the significant benefits and risks associated with the transactions.

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

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

Assets classified as available-for-sale
Available-for-sale investments are held at fair value where this can be reliably measured. Unless the valuation falls below its original cost, gains and losses arising from changes in fair value of available-for-sale assets are recognised directly in equity. On disposal the cumulative net gain or loss is transferred to the statement of comprehensive income. Valuations below cost are recognised as impairment losses in the income statement.

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

Tangible fixed assets
Land is not depreciated and is held at cost.

Impairment of assets (excluding investment in subsidiaries)
The Company assesses, at each reporting date, whether there is an indication that land may be impaired by reference to market value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Investments
Investments in subsidiary 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 of offset exists.

Creditors
Creditors are recognised at cost.

Amounts owed to group undertakings
Amounts owed to group undertakings are repayable on demand and are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost.

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

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

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

Shared Services Agreement ('SSA')
All employees of the Heathrow Airport Holdings Limited group ('HAH Group') are employed by LHR Airports Limited with the exception of non-senior management at Heathrow Express Operating Company Limited, LHR Business Support Centre Limited and the Board Members of HAHL. LHR Airports Limited legally sponsors the defined benefit pension schemes while Heathrow Airport Limited incurs employment related costs. On 18 August 2008, Heathrow Airport Limited and Heathrow Express

Operating Company Limited entered into a SSA with LHR Airports Limited by which the latter became a provider of services for the HAH Group.

Following the disposal of Aberdeen, Glasgow and Southampton airports in December 2014 the directors reassessed the Group's relationship with LHR Airports Limited, given that the sole operating airport is now Heathrow and noted the following;

- The SSA states that the operating entities, being only Heathrow Airport Limited from 1 Jan 2015, are responsible for pension costs on LHR Airports Limited's retirement benefit schemes,
- Heathrow Airport Limited is responsible for funding the retirement benefit schemes, paying employer contributions directly to the pension scheme, and
- Although employees remain legally employed by LHR Airports Limited, Heathrow Airport Limited makes all employment decisions. LHR Airports Limited is no longer deemed to be providing a service, but is acting as an agent.

Consequently, from 1 January 2015, all employment related costs and the disclosures pertaining to the defined benefit pension scheme are presented in the financial statements of Heathrow Airport Limited.

Operational staff
Heathrow Airport Limited 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 and redundancy payments, as well as any other associated expenses properly incurred by the employees of LHR Airports Limited in providing the services.

Corporate and centralised services
LHR Airports Limited is considered to be acting as principal in relation to the services of the HAHL board members and Ferrovial advisory services. These costs will continue to be recharged to Heathrow Airport Limited (the only remaining airport party to the SSA) with a mark-up of 7.5%. Other services are now paid for and sourced directly by Heathrow Airport Limited, either without the Company's involvement or on a pass through fixed mark up only basis (agent). This judgement has been reached following consideration of whether the Company is exposed to the majority of the risks and rewards associated with the centralised services provided by the Company.

Pension costs
Heathrow Airport Limited and Heathrow Express Operating Company Limited ('HEX') have had an obligation since August 2008 to fund or benefit from their share of the LHR Airports Limited defined benefit pension scheme (or 'BAA Pension Scheme') deficit or surplus and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities under the SSA. Previously, when part of a group with multiple operations, these provisions or assets were based on the relevant share of the scheme deficit or surplus and allocated on the basis of pensionable salaries. Movements in these provisions or assets arose due to current service costs, net finance costs or income, employer cash contributions and actuarial gains or losses. Until the year ended 31 December 2014 Heathrow Airport Limited and HEX recorded their share of the net actuarial gain or loss for the year as an exceptional item due to their size and nature.

Following the disposal of Aberdeen, Glasgow and Southampton airports (together the 'NDH1 Group') in December 2014, the directors reassessed the Groups' relationship with the legal sponsor of the retirement benefit schemes (the Company) given that the HAH Group's sole operating airport is now Heathrow. The directors have determined, after taking into account the Shared Service Agreement, employment relationships and the funding risk associated with the schemes, that Heathrow Airport Limited now acts as principal in relation to these schemes. As a result, the Company no longer recognises an external asset or liability, in relation to the schemes, on its statement of financial position. Consequently the LHR Airports Limited pension note 14 details prior year balances only.

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

Shared Services Agreement ('SSA') *continued*
Pension costs continued
There is no impact on cash or net assets as a result of this change as it is not considered to be a change in accounting policy as the change has arisen as a result of the disposal of the NDH1 Group. Consequently there will be no restatement of financial information in the prior period.

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

The Company's primary defined benefit UK pension fund is a self-administered defined benefit scheme now closed to new employees. The defined benefit obligation or surplus is calculated quarterly by independent actuaries using the projected unit credit method. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet. Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses as an actuarial gain or loss along with differences which arise from experience or assumption changes.

The amount of income or expenditure recognised in the profit and loss account as employment costs, in relation to the defined benefit pension scheme, comprises the current service costs and past service costs and is recognised in Heathrow Airport Limited

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

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

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

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. Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve. Where a share capital reduction has taken place, shares are classified at their re nominalisation value.

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.

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2015. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2015 (intermediate parent entity and the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement and from disclosing related party transactions with entities that are wholly owned subsidiaries of the FGP Topco Limited group under the terms of accounting standard FRS 102 (1.12 (b) and (e)).

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

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

Critical judgements in applying the group accounting policies

Presentation of revenue gross or net

A judgement has been made in relation to the Agent versus Principal presentation of accounting information in the 2015 financial statements, as described in the accounting policies

As described in the accounting policies, the Company is now viewed by management as acting as principal in relation to the services of the board members of HAHL and Ferrovial advisory services. These costs will continue to be recharged to Heathrow Airport Limited (the only remaining airport party to the SSA) with a mark-up of 7.5%. For these costs the Company has included the gross amount of its sales revenues within Turnover and the associated costs have been included within Operating Costs, both within the Profit and loss account. Other services are now paid for and sourced directly by Heathrow Airport Limited, either without the Company's involvement or on a pass through fixed mark up only basis. Therefore, since the substance of the transaction is that the Company is acting as agent, it should report as turnover only the mark up receivable in return for its performance under the SSA.

This judgement has been reached following consideration of whether the Company has been exposed to the majority of the significant benefits and risks associated with the transactions.

Key sources of estimation uncertainty

Investment valuation

The Company reviews investment in subsidiaries for impairment, or reversal of previous impairments, if there are any indications that the carrying values may not be recoverable or may have increased as a result of a favourable change in economic assumptions. The carrying value of the investment is compared to the recoverable amount of the subsidiary and where a deficiency exists, an impairment charge is considered by management or reversal of previous impairments where a surplus exists. The recoverable amount has been calculated using the fair value less cost to sell methodology. Fair value less cost to sell has been calculated based on discounted cash flow projections of the business.

The Company's available for sale investment is valued by discounting the forecast dividend stream and an assigned terminal value for the equity investment. In 2015 a rate of 7.46% (2014:10.00%) has been used as the discount factor.

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

1 Turnover

The directors consider the business has only one segment. All of the Company's revenue arises in the United Kingdom from other group companies under the terms of the SSA referred to in the statement of accounting policies

2 Operating costs - ordinary

Operating costs, excluding exceptional items, comprise the following.

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Wages and salaries	4	338
Social Security	1	33
Pensions	-	67
Other staff related costs	5	10
Share based payments	-	1
Employment costs	10	449
Other	10	7
Total operating costs	**20**	456

Auditor's remuneration

Audit fees are paid for by the Company and are then recharged in accordance with the SSAs into the operating entities. Of the total audit fee £16,000 (2014: £22,000) related to the audit of the Company's financial statements.

Employee information

The Company has 7 employees (2014: 7,403), all of whom were based in the United Kingdom and the average monthly number of employees (including executive directors) of the Company was as follows:

	Year ended 31 December 2015 Number	Year ended 31 December 2014 Number
Continuing operations		
Heathrow Airport and Heathrow Express Operating Company Limited[1]	-	6,441
Other operations	7	8
	7	6,449
Discontinued operations		
Airports[1]	-	954
	7	7,403

[1] The Airports employee numbers – discontinued operations relate to the sale of Aberdeen, Glasgow and Southampton Airports on 18 December 2014.

Following the disposal of Aberdeen, Glasgow and Southampton airports (together the 'NDH1 Group') in December 2014 the directors reassessed the Company's relationship with LHR Airports Limited, given that the sole operating airport is now Heathrow. The directors noted that although employees remain legally employed by LHR Airports Limited, the Company makes all employment decisions. LHR Airports Limited is no longer deemed to be providing a service, substantive or otherwise in relation to employees, to the Group

Consequently, from 1 January 2015, employee numbers for those providing services to the operation of the airport are now reported in the 2015 financial statements of Heathrow Airport Limited and not in the financial statements of LHR Airports Limited, as was the case in 2014.

It should be noted that the above change to the presentation of the 2015 employee numbers does not constitute a change in accounting policy. It has arisen solely as a result of the sale of the NDH1 Group and is a change in accounting presentation to better reflect commercial reality.

Directors' remuneration

All of the directors were directors of a number of companies within the Heathrow Airport Holdings Group as well as LHR Airports Limited. Their remuneration for the year ended 31 December 2015 was disclosed within the statutory financial statements of the following companies to which they primarily provide services: John Holland-Kaye, Michael Uzielli and José Leo - Heathrow Airport Holdings Limited; Normand Boivin, Carol Hui, Clare Harbord, Emma Gilthorpe, Paula Stannett, Ian Ballentine, Stuart Birrell and Neil Clark – Heathrow Airport Limited as it is not considered possible to apportion their remuneration to different companies.

Notes to the financial statements for the year ended 31 December 2015 *continued*

2 Operating costs – ordinary *continued*

Directors' remuneration

During the year, two of the directors (2014: two) had retirement benefits accruing to them under a defined benefits scheme and seven of the directors (2014: six) had retirement benefits accruing to them under a defined contribution scheme.

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

3 Exceptional items

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Operating gain – exceptional: pensions	-	201
Total operating exceptional items	-	201
Tax charge on exceptional items	-	(38)
Total exceptional items after tax	-	163

Operating gain - pensions

The exceptional operating gain is nil for the year ended 31 December 2015. In prior years this credit reflected an increase in the amount receivable by the Company from the entities which are party to the SSAs due to movements in the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme ('UURBS') and Post-Retirement Medical Benefits ('PRM') pension-related liabilities.

For the year ended 31 December 2015 the directors reassessed Heathrow Airport Limited's relationship with the Company as legal sponsor of the retirement benefit schemes, given that the sole operating airport was now Heathrow. The directors determined, after taking into account the SSA, employment relationships and the funding risk associated with the schemes, that Heathrow Airport Limited now acts as principal in relation to these schemes. As a result, Heathrow Airport Limited now recognises an external position, in relation to the schemes, on its statement of financial position as non-current under the caption of Retirement benefit obligations and no longer records an intercompany position with the Company. Additionally, it is now considered appropriate for Heathrow Airport Limited to record actuarial gains and losses on the external scheme within other comprehensive income.

4 Net interest payable and similar charges

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest receivable and similar income		
Interest receivable from other group undertakings	**371**	698
Interest from available for sale financial assets	**3**	3
Pension finance income[1]	-	11
	374	712
Interest payable and similar charges		
Interest payable to other group undertakings	**(21)**	(52)
Pension finance cost recharge[1]	-	(11)
	(21)	(63)
Net interest receivable before fair value gain	**353**	649
Fair value gain on financial instruments		
Equity swaps	-	1
Net interest receivable before fair value gain	**353**	650

[1] This represented in 2014 the recognition and pushdown of pension finance cost to Heathrow Airport Limited and Heathrow Express Operating Company Limited.

Notes to the financial statements for the year ended 31 December 2015 *continued*

5 Other income

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Dividends received from subsidiaries[1]	213	2,442
Realisation of investment in subsidiaries[2]	-	(1,581)
Release of intercompany in relation to a dissolved company[3]	-	(9)
	213	852

[1] Dividends received from Heathrow (DSH) Limited £209 million cash (2014:£437 million) and LHR Insurance services Limited £4 million (2014:nil); in 2014 BAA Italia SpA (following dissolution) £11 million and the following non trading subsidiaries of LHR Airports as a result of an internal reorganisation in 2014 – all non-cash dividends : Scottish Airports Limited £44 million, BAA International Limited £34 million, BAA Partnership Limited £783 million, London Airports Limited £1,102 million and BAA Lynton Developments Limited £31 million.
[2] 'Realisation of investment in subsidiaries' relates to the following non trading subsidiaries of LHR Airports Limited following an internal reorganisation in 2014: Scottish Airports Limited £40 million, BAA International Limited £27 million, BAA Partnership Limited £594 million, London Airports Limited £920 million.
[3] Release of intercompany balance in 2014 related to the dissolution of BAA Italia SpA.

All non-cash dividends were ultimately settled through set off against intercompany payables with the same counterparty; any difference between the distribution received and the reduction in investments was recognised in the P&L reserve.

6 Tax credit on profit on ordinary activities

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
UK corporation tax		
Current tax at 20.25% (2014: 21.5%)	-	8
Group relief (receivable)/payable	(11)	9
Over provision in respect of prior years[1]	(14)	(142)
Deferred tax		
Current year	2	31
Prior year	6	(1)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	1	-
Tax credit on profit on ordinary activities	(16)	(95)

[1] Adjustment in respect of the prior period relates mainly to worldwide debt cap calculations. At a Group level this adjustment nets to nil.

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit on ordinary activities before tax	567	1,703
Reconciliation of the tax credit		
Tax charge calculated at the UK statutory rate of 20.25% (2014: 21.5%)	115	366
Effect of:		
Adjustments in respect of current tax of previous years[1]	(14)	(142)
Non-taxable income	(124)	(318)
Adjustments in respect of deferred tax of previous years	6	(1)
Change in UK corporation tax rate-impact on deferred tax assets and liabilities	1	-
Tax credit on profit on ordinary activities	(16)	(95)

[1] Adjustment in respect of the prior period relates mainly to worldwide debt cap calculations. At a Group level this adjustment nets to nil.

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will reduce from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In addition, in 2015 the Organisation for Economic Co-operation and Development (OECD) released its final reports on base erosion and profit shifting (BEPS). The OECD BEPS project, addressing perceived flaws in international tax rules, could impact the future tax charge, but it is too early to quantify any impact at this stage.

6 Tax credit on profit on ordinary activities *continued*
Other than these changes (and the unprovided deferred tax discussed at note 9), there are no items which would materially affect the future tax charge.

7 Tangible fixed assets
The cost of land at 31 December 2015 was £2 million (2014: £2 million).

8 Investments

	Subsidiaries £m	Available for sale investments £m	Total £m
Cost			
1 January and 31 December 2015	**3,841**	**5**	**3,846**
Revaluation			
1 January 2015	-	21	21
Revaluation	-	5	5
31 December 2015	**-**	**26**	**26**
Net book value 31 December 2015	**3,841**	**31**	**3,872**
Net book value 31 December 2014	3,841	26	3,867

Subsidiaries
The Company's subsidiaries are shown below:

Direct subsidiaries are:

Subsidiary	Nature of business	% of issued share capital held	Class of share
Heathrow (DSH) Limited	Holding Company	100	Ordinary shares of £1 each
Heathrow Enterprises Limited	Investment Company	100	Ordinary shares of £1 each
BAA Partnership Limited	Dormant	100	Ordinary shares of £0.000001 each
BAA General Partner Limited	Dormant	100	Ordinary share of £1
BAA Properties Limited	Dormant	100	Ordinary share of £1
LHR Insurance Services Limited[1]	Insurance	100 100	Ordinary shares of £1 each Redeemable Preference shares of £0.01 each
LHR Building Control Services Limited	Building construction	100	Ordinary shares of £1 each
LHR Business Support Centre Limited	Provision of support services	100	Ordinary shares of £1 each
BAA Lynton Management Limited	Dormant	100	Ordinary shares of £1 each
BAA Lynton Developments Limited	Dormant	100	Ordinary shares of £0.0001 each
LHR (IP Holdco) Limited	Dormant	100	Ordinary shares of £1 each
BAA Pension Trust Company Limited	Dormant	100	Ordinary shares of £1 each
9G Rail Limited	Dormant	100	Ordinary share of £1
World Duty Free Limited	Provision of funding to other Group companies	100	Ordinary shares of £0.023 each
Airport Property GP (No.1) Limited	Dormant	100	Ordinary shares of £1 each
Scottish Airports Limited	Dormant	100	Ordinary shares of £0.00001 each
Airport Hotels General Partner Limited	Dormant	100	Ordinary shares of £1 each
London Airports 1992 Limited	Provision of funding to other Group companies	100	Ordinary shares of £1 each
London Airports Limited	Dormant	100	Ordinary shares of £0.000001 each
Sanfield Lynton Limited	Dormant	50	50 Ordinary shares of £1 each
BAA International limited	Dormant	100	Ordinary shares of £0.00001 each

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

8 Investments *continued*

In the opinion of the Directors, the value of the shares in the subsidiary undertakings are not less than the amounts at which they are stated in the Company's Balance sheet.

Additionally, the Company's subsidiaries which are indirectly held as at 31 December 2015 are:

Indirect subsidiaries:

BMG (CO2) Limited	Heathrow (AH) Limited	The BMG (Ashford) LP
BMG (Ashford) General Partner Limited	Heathrow (SP) Limited	The BMG (Bridgend Phases II and III) LP
BMG (Ashford) Limited	Heathrow Airport Limited	The BMG (CO Phase IV) LP
BMG (Ashford) Partnership Trustco Limited	Heathrow Express Operating Company Limited	The BMG (Swindon Phases II and III) LP
BMG (Swindon Phases II & III) General Partner Limited	Heathrow Finance plc	Ultra Global Limited
BMG (Swindon) Limited	Heathrow Funding Limted[2]	BMG (Ashford) General Partner Limited
BMG Europe Limited[1]	LHR (Hong Kong) Limited	BMG (Cheshire Oaks) Limited
Devon Nominees Limited	London Airports 1993 Limited	BMG (Bridgend) Limited

[1] Incorporated in Jersey, but all profit taxed in the UK as a Controlled Foreign Company.
[2] Incorporated in Jersey, but UK tax resident.

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

Available for sale investments

Available-for-sale investments relates to the Company's 4.19% equity interest in National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider.

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2015. A rate of 7.46% (2014:10.00%) has been used as the discount factor.

9 Debtors

	31 December 2015 £m	31 December 2014 £m
Due within one year:		
Amounts owed by group undertakings - interest free[1]	**149**	140
Amounts owed by group undertakings - interest bearing[2]	**10**	11
Interest receivable from group undertakings[3]	**628**	257
Amounts owed by group undertakings – pensions[4]	**-**	228
Corporation tax receivable	**15**	9
	802	645
Due after more than one year:		
Deferred tax (a)	**1**	11
Amounts owed by parent undertaking[5]	**5,808**	5,808
Total debtors	**6,611**	6,464

[1] 'Amounts owed by group undertakings – interest free' is made up of £30 million (2014:£19 million) receivable from its intermediate parent Non Des Topco Limited. This is as a result of Non Des Topco Limited taking on the liability of its former subsidiaries to LHR Airports Limited on their historic share of the group's defined benefit pension scheme liability following the sale of Aberdeen, Glasgow and Southampton Airports in 2014. The remaining £119 million (2014: £121 million) is in relation to loans receivable from the Company's subsidiaries, the largest of which being a £89 million loan with Heathrow Airport Limited (2014:£104 million).

[2] 'Amounts owed by group undertakings – interest bearing' is made up of loans with Heathrow Airport Limited and LHR Business Support Centre Limited totalling £3 million (2014 :£4 million) which have arisen over a number of years and accrue interest at 1.5% over Bank of England base rate with no fixed terms for repayment. In addition there is £7 million (2013: £7 million) due from Heathrow Enterprises Limited which accrues interest at 13%. All amounts are repayable on demand.

[3] This relates to £624 million (2014: £254 million) of interest receivable from Heathrow Holdco Limited and £4 million (2013: £3 million) of interest receivable from other subsidiaries.

[4] In 2014 this balance represented amounts due to the Company from Heathrow Airport Limited and Heathrow Express Operating Company Limited in respect of the allocation of the deficit on the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme, and Post-Retirement Medical Benefits pension related liabilities.

[5] Amounts owed by parent undertaking' relates to a loan to Heathrow Holdco Limited. This amount accrues interest at 6.65% at 31 December 2015 (2014: 6.65%).

9 Debtors *continued*

a) Analysis of deferred taxation

	£m
1 January 2015	11
Credit for the year	(10)
31 December 2015	**1**

Analyses of deferred tax asset balances are as follows:

	31 December 2015 £m	31 December 2014 £m
Excess of depreciation over capital allowances	**1**	1
Other short term timing differences	**-**	9
Derivative financial instruments	**-**	1
Deferred Tax asset	**1**	11

Provision has been made for deferred taxation in accordance with FRS 102.

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. As a result, the Group's deferred tax balances, which were previously provided at 20%, were re-measured at the rate at which the Group believes the timing differences will reverse. This resulted in a reduction in the net deferred tax asset of £1 million, credited to the income statement.

10 Cash and cash equivalents

	31 December 2015 £m	31 December 2014 £m
Short term deposits	**12**	18
Cash at bank and in hand	**-**	12
	12	30

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk.

11 Creditors: amounts falling due within one year

	31 December 2015 £m	31 December 2014 £m
Trade creditors	**11**	36
Amounts owed to group undertakings – interest free	**159**	119
Amounts owed to group undertakings – interest bearing[1]	**21**	26
Group relief payable[2]	**-**	16
Dividends payable	**2**	2
Other creditors	**7**	9
	200	208

[1] 'Amounts owed to group undertakings – interest bearing' mainly includes balances owed to subsidiaries which accrue interest at 1.5% over Bank of England base rate.

[2] Group relief is payable to other entities in the wider Heathrow Airport Holdings Group who have surrendered losses to the Company in the period.

12 Creditors: amounts falling due after more than one year

	31 December 2015 £m	31 December 2014 £m
Amounts owed to group undertakings - interest free[1]	**211**	211
Amounts owed to group undertakings - interest bearing[2]	**1,075**	1,057
	1,286	1,268

[1] 'Amounts owed to group undertakings – interest free' includes a £74 million loan from Heathrow (DSH) Limited, a subsidiary of the Company (2014:£74 million). Also included is £33 million (2014: £33 million) from Non Des TopCo Limited in relation to the curtailment gain that arose, on the LHR defined benefit pension scheme, as a result of disposing of Airport Holdings NDH1 Limited. The remaining balance of £104 million (2014:£104 million) is amounts from Non Des Topco Limited using the proceeds from the disposal of Airports Holding NDH1 Limited.

[2] 'Amounts owed to group undertakings – interest bearing' include balances totalling £1,075 million (2014: £1,057 million) which accrue interest at 1.5% over the Bank of England base rate.

13 Provisions for liabilities and charges

	Deferred tax	Pension costs	Reorganisation costs	Other	Total
	£m	£m	£m	£m	£m
1 January 2015	5	222	14	-	241
Transferred out	-	(222)	(14)	-	(236)
Charged in the year	-	-	-	4	4
31 December 2015	**5**	**-**	**-**	**4**	**9**

Deferred tax
The deferred tax provision is in respect of the fair value movements associated with the Company's available for sale investment.

Pension costs
As described in note 14, Heathrow Airport Limited now recognises an external position in relation to the pension schemes, on its statement of financial position. Therefore the net deficit as at 1 January 2015 was subsequently transferred out to HAL.

Reorganisation costs
The costs associated with the Heathrow Airport Holdings Group's reorganisation programmes primarily relate to various restructuring processes designed to reduce the size and cost of overhead functions. This programme was approved by the relevant Board and raised the expectation in those affected by it prior to 31 December 2014.

For the year ended 31 December 2015 Heathrow Airport Limited has accounted for the restructuring provision in its statutory accounts. Since Heathrow Airport Limited management make all the employment decisions it is, in substance, the principal employer of airport staff.

Other
Other provisions relates to a provision for income tax in relation to annual payments.

14 Retirement benefit obligations

The Company is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post – Retirement Medical Benefits ('PRM') scheme.

As at 31 December 2014 and as part of the SSA, the operating entities of the Heathrow Airport Holdings Group were required to fund their share of the retirement benefit schemes and were required to record their share of the position on these schemes in their financial statements. The operating entities, in the context of the SSA, as at 31 December 2014, were Heathrow Airport Limited (HAL) and Heathrow Operating Express Company Limited (HEX). The relevant share of the position on the retirement benefit schemes attributed to HAL was 99.7%. The remainder was allocated to HEX. The Company recorded the external position of the retirement benefit schemes but then pushed the position down to the operating entities. The Company recorded an intercompany from the operating entities in relation to the external position.

In 2015 the directors reassessed Heathrow Airport Limited's relationship with the Company as the legal sponsor of the retirement benefit schemes, given that the Group's sole operating airport was now Heathrow. The directors determined, after taking into account the SSA, employment relationships and the funding risk associated with the schemes, that Heathrow Airport Limited now acts as principal in relation to these schemes. As a result, Heathrow Airport Limited now recognises an external position, in relation to the schemes, on its statement of financial position as non-current under the caption of Retirement benefit obligation or surplus and no longer records an intercompany position with the Company. Additionally, it is now considered appropriate for Heathrow Airport Limited to record actuarial gains and losses on the external scheme within other comprehensive income. This differs from the prior periods where Heathrow Airport Limited recorded a share of the actuarial gains and losses, treated as an intercompany recharge, as an exceptional item in Heathrow Airport Limited's profit and loss account. The Company recorded as an exceptional operating gain an amount receivable from the entities party to the SSA due to movements in the defined benefit pension scheme.

There is no impact on cash or net assets as a result of this change as it is not a change in accounting policy. This change has arisen as a result of the disposal of Airport Holdings NDH1 Limited , the holding company of a group of companies (together the 'NDH1 Group') that principally owned and operated three airports in the UK located in Glasgow, Aberdeen and Southampton. Consequently there will be no restatement of financial information in the prior period to align with our new method of accounting presentation. The following note as at 31 December 2014 is for comparative purposes only.

14 Retirement benefit obligations ***continued***
BAA Defined Benefit Pension Scheme

	31 December 2015 £m	31 December 2014 £m	31 December 2013 £m	31 December 2012 £m	31 December 2011 £m
Fair value of plan assets at end of year	-	3,274	2,867	2,791	2,691
Benefit obligation at end of year	-	(3,473)	(2,960)	(2,894)	(2,652)
Gross surplus/(deficit) in BAA Pension Scheme	-	(199)	(93)	(103)	39
Net (deficit)/surplus in BAA Pension Scheme	-	(199)	(93)	(103)	39
Unfunded pension obligations	-	(23)	(23)	(24)	(23)
Post-retirement medical benefits	-	(6)	(5)	(6)	(6)
Gross deficit on other pension and post-retirement benefit obligations	-	(29)	(28)	(30)	(29)
Related deferred tax asset	-	6	5	7	7
Net deficit on other pension and post-retirement benefit obligations	-	(23)	(23)	(23)	(22)

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
BAA Pension scheme (Note 13(a))	-	59
Defined contribution schemes	-	8
Total operating charge to employment costs	-	67

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

The value placed on the scheme's obligatons as at 31 December 2014 is based on the full actuarial valuation carried out at 30 September 2013. The liabilities have been updated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS19 *Employee Benefits*. The Scheme assets are stated at their bid value at 31 December 2015. The Company's accounting policy is to recognise actuarial gains and losses as they occur in the statement of comprehensive income.

The financial assumptions used to calculate the Scheme assets and liabilities under IAS 19 are:

	31 December 2015 %	31 December 2014 %
Rate of increase in pensionable salaries	-	4.7
Increase to deferred benefits during deferment	-	2.5
Increase to pensions in payment:		
Open section	-	3.1
Closed section	-	3.2
Discount rate	-	3.6
Inflation assumption	-	3.2

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

(a) BAA Pension Scheme continued
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 on AA rated corporate bonds of a term similar to the liabilities.

14 Retirement benefit obligations *continued*

(a) BAA Pension Scheme continued

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. To develop the expected long-term rate of return on assets assumption, the Heathrow Airport Holdings Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

For bond investments with fixed interest rates the expected yield is derived from their market value.

In respect of the equity investments, investment returns are variable and are generally considered 'riskier' investments. It is generally accepted that the return on equity investments contains a premium, the 'equity risk premium', to compensate investors for the additional risk of holding this type of investment. There is significant uncertainty about the size of this risk premium. The assumption chosen is within the range of long-term market expectations.

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 5.1% assumption (2014: 5.1%).

The target asset allocation consistent with the scheme investment policy is 30:70 growth assets to matching assets.

The amounts charged to profit and loss account, in relation to the BAA DB pension scheme, are as follows:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Current service cost	-	57
Past service cost[1]	-	2
Total charge to the profit and loss account	-	59

[1] Past service costs relate to abatement costs.

The amounts recognised in the statement of other comprehensive income in relation to the BAA DB pension scheme:

	Year ended 31 December 2015 £m
Return on assets in excess of profit and loss credit	-
Experience gains and losses arising on the benefit obligation	-
Changes in assumptions underlying the present value of the benefit obligation	-
Actuarial loss recognised in the statement of other comprehensive income[1 2]	-

[1] The actuarial loss, on the defined benefit pension scheme, recognised in the statement of other comprehensive income before tax is £nil (2014: £198 million loss).

[2] Total cumulative actuarial losses recognised in equity were £nil million (2014: £554 million) on the defined benefit scheme.

The amounts recognised in the balance sheet are determined as follows:

	31 December 2015 £m	31 December 2014 £m
Fair value of plan assets		
Equities	-	668
Bonds	-	1,123
Other	-	1,483
Total fair value of plan assets	-	3,274
Present value of benefit obligation	-	(3,473)
Gross deficit in scheme at 31 December	-	(199)
Liability recognised in the balance sheet	-	(199)

14 Retirement benefit obligations *continued*

a) BAA Pension Scheme continued

Analysis of movement in the benefit obligation:

	2015 **£m**	2014 £m
Benefit obligation at 1 January	-	2,960
Movement in the year:		
Current service cost	-	58
Past service gain	-	(31)
Finance cost	-	133
Members' contributions	-	8
Actuarial (gain)/loss	-	596
Bulk liabilities transferred on sale of NDH1 group	-	(135)
Experience (gain)/ loss	-	(17)
Benefits paid (by fund and company)	-	(99)
Benefit obligation at 31 December	-	3,473

As part of the triennial review of the Defined Benefit Pension Scheme, completed in 2014, based on the Scheme's valuation as at 30 September 2013 it was agreed that the new contribution will be £98 million per annum (out of which £39 million related to deficit reduction) commencing from 1 January 2015. The contribution will then reduce to £83m per annum from 1 January 2019 until 31 December 2020.

Movements in the fair value of the plan assets were as follows:

	2015 **£m**	2014 £m
Fair value of plan assets at 1 January	-	2,867
Income statement credit on plan assets	-	146
Return on assets in excess of income statement credit	-	381
Employer contributions (including benefits paid and reimbursed)	-	108
Administration expenses	-	(5)
Members' contributions	-	8
Bulk transferred assets on sale of NDH1 group	-	(132)
Benefits paid (by fund and company)	-	(99)
Fair value of plan assets at 31 December	-	3,274

History of experience gains and (losses):

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Difference between the expected and actual return on scheme assets:					
Amount £m	-	381	12	(29)	174
Percentage of scheme assets	-	11.6	0.4	(1.0)	6.5
Experience (losses) and gains on benefits obligations:					
Amount £m	-	17	(2)	5	(70)
Percentage of benefit obligation	-	0.5	(0.1)	0.2	(2.6)
Amount recognised in the statement of total recognised gains and (losses):					
Amount £m	-	(198)	(76)	(210)	10
Percentage of benefit obligation	-	(6.0)	(2.6)	(7.3)	0.4

(b) Other pension and post-retirement liabilities

Defined contribution scheme

The Company operates a defined contribution scheme for all employees who joined after 15 June 2008. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £8 million (2014: £8million).

14 Retirement benefit obligations *continued*

(b) Other pension and post-retirement liabilities continued

UURBS & PRM Schemes

The Company provided unfunded pensions in respect of a limited number of former directors and senior employees whose benefits were restricted by the scheme rules. In addition the Company provided post-retirement medical benefits to certain pensioners. In 2014, the present value of the future liabilities under this arrangement, being £6 million, was included in the balance sheet, along with a provision for unfunded pension obligations of £24 million. The value of these unfunded pension obligations excluded the associated deferred tax asset of £6 million and was assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

The finance cost in relation to the UURBS & PRM schemes amounted to £nil million (2014: £1.3m). The Company does not book this finance cost in its profit and loss account. This finance cost is booked directly into the profit and loss account of Heathrow Airport Limited. The external position on the UURBS & PRM scheme is adjusted for the finance cost but there is no P&L entry in the accounts of the Company.

An experience gain of £nil million (2014: £0.4million gain) arose due to an updated valuation of the UURBS & PRM scheme arrangements.

A net actuarial gain of £nil million was recognised in relation to the UURBS & PRM schemes. This net gain arose as a result of changes in financial assumptions.

15 Share capital

	£
Called up, allotted and fully paid	
1 January and 31 December 2015	
6,309,120,652 ordinary shares at £0.000001 each at December 2015	**6,309**

16 Other reserves

	Available for sale investments £m	Capital redemption reserve £m	Total £m
1 January 2015	16	27	43
Revaluation net of tax	5	-	5
31 December 2015	**21**	**27**	**48**

17 Transition to FRS 102

As stated in the Accounting policies, these are the Company's first financial statements prepared in accordance with FRS 102. The transition date to FRS 102 was 1 January 2014.

The accounting policies disclosed in the Accounting policies section have been applied in preparing these financial statements for the year ended 31 December 2015, the comparative information for the year ended 31 December 2014, and in the preparation of an opening FRS 102 balance sheet at 1 January 2014.

In preparing its opening FRS 102 balance sheet as at 1 January 2014 the Company has adjusted amounts previously reported in its statutory annual report and financial statements. An explanation of how the transition to FRS 102 has affected the Company's financial position and financial performance has been provided below.

First-time adoption of FRS 102

FRS 102 grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to FRS 102.

LHR Airports Limited

Notes to the financial statements for the year ended 31 December 2015 *continued*

17 Transition to FRS 102 ***continued***
Reconciliation of equity

1 January 2014	Under UK GAAP £m	Presentational adjustments £m	Available for sale investment reserve £m	Deferred tax £m	Under FRS 102 £m
	Note A	Note B	Note C	Note D	
Fixed assets					
Intangible assets					
Tangible fixed assets	2				2
Investments	5,459				5,459
Investment in subsidiary					
Total fixed assets	**5,461**				**5,461**
Current assets					
Stocks					
Debtors	9,193	(9,193)			
Debtors – due within one year	-	594			594
Debtors – due after one year	-	8,599			8,599
Cash and cash equivalents	8				8
Total current assets	**9,201**	**-**			**9,201**
Current liabilities					
Creditors: amounts falling due within one year	(613)				(613)
Net current assets	**8,588**	**-**			**8,588**
Total assets less current liabilities	**14,049**	**-**			**14,049**
Creditors: amounts falling due after more than one year	(2,882)				(2,882)
Provisions for liabilities and charges	(140)			(5)	(145)
Net assets	**11,027**	**-**		**(5)**	**11,022**
Capital and reserves					
Share capital	1,567				1,567
Share premium	325				325
Other reserves	53		(3)	(5)	45
Profit and loss reserve	9,082		3		9,085
Total shareholder's funds	**11,027**	**-**	**-**	**(5)**	**11,022**

LHR Airports Limited

Notes to the financial statements for the year ended 31 December 2015 *continued*

17 Transition to FRS 102 ***continued***
Reconciliation of equity continued

31 December 2014	Under UK GAAP £m	Presentational adjustments £m	Available for sale investment reserve £m	Deferred tax £m	Under FRS 102 £m
	Note A	Note B	Note C	Note D	
Fixed assets					
Intangible assets					
Tangible fixed assets	2				2
Investments	3,867				3,867
Investment in subsidiary					
Total fixed assets	**3,869**				**3,869**
Current assets					
Stocks					
Debtors	6,464	(6,464)			
Debtors – due within one year	-	645			645
Debtors – due after one year	-	5,819			5,819
Current asset investments	18	(18)			-
Cash and cash equivalents	12	18			30
Total current assets	**6,494**	**-**			**6,494**
Current liabilities					
Creditors: amounts falling due within one year	(208)				(208)
Net current assets	**6,286**	**-**			**6,286**
Total assets less current liabilities	**10,155**	**-**			**10,155**
Creditors: amounts falling due after more than one year	(1,268)				(1,268)
Provisions for liabilities and charges	(236)			(5)	(241)
Net assets	**8,651**	**-**		**(5)**	**8,646**
Capital and reserves					
Share capital	-				-
Share premium	-				-
Other reserves	52		(4)	(5)	43
Profit and loss reserve	8,599		4		8,603
Total shareholder's funds	**8,651**	**-**	**-**	**(5)**	**8,646**

Note A
These balances are as presented in the statutory annual report and financial statements of the Company under legacy UK GAAP prior to the adjustments required to comply with FRS 102.

Note B
Presentational adjustments to the balance sheet on transition to FRS 102
On transition to FRS 102, the Group has reclassified the following items:

- debtors – under FRS 102, debtors are shown separately on the face of the balance sheet in respect of those that are due within one year and those that are due after more than one year.
- current asset investments – under FRS 102, 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, when the right to offset exists. Short-term deposits with an original maturity of over three months are shown within debtors due within one year. Balances reported under UK GAAP as current asset investments have therefore been reclassified to cash and cash equivalents and/or term deposits.

Note C
On transition to FRS 102 there were some historical adjustments to reflect the available for sale investment reserve as part of other reserves.

Notes to the financial statements for the year ended 31 December 2015 *continued*

17 Transition to FRS 102 ***continued***

Reconciliation of equity continued

Note D

Under UK GAAP deferred tax is recognised on timing differences arising in the profit and loss account. 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.

FRS 102.29 'Income Tax' requires deferred tax to be recognised on timing differences arising in total comprehensive income, which is the sum of the profit or loss account and reserves movements excluding transactions with owners.

On transition to FRS 102, deferred tax was recognised for an item that was not required under UK GAAP, namely the fair value movement in comprehensive income on the Company's available for sale investment in the National Air Traffic Services Holdings Limited. The total increase in deferred tax liabilities on transition was £5 million.

At 31 December 2014 the total increase in deferred tax liabilities was £5 million.

Reconciliation of comprehensive income for the year ended 31 December 2014

The adoption of FRS 102 had no significant impact on the reported statement of comprehensive income for the year ended 31 December 2014. The only change was a net credit to comprehensive income of £0.1m for deferred tax in respect of the change in fair value during the year on the available for sale investment.

18 Ultimate parent undertaking

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

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

The Company's results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2015, 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 FGP Topco Limited for the year ended 31 December 2015.

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

19 Subsequent events

On 22 February 2016, the board approved the payment of a £75 million dividend to the Company's parent, Heathrow Holdco Limited. This was financed by the receipt of a dividend payment from the Company's subsidiary, Heathrow (DSH) Limited for £78 million.