From:	[redacted]
To:	economicregulation
Subject:	CAA CAP1832
Date:	09 October 2019 16:40:57
Attachments:	FGP Topco Annual Return 2015.pdf FGP Topco Annual Report 2018.pdf Heathrow Finance plc 2012 Prospectus Page 19.pdf

>To: Economic Regulation
>From: John Busby

Subject: CAA CAP1832 consultation

Since my last submission to your good selves I have put together a short analysis of Heathrow's financial status with a link to the web
http://www.after-oil.co.uk/HeathrowConsolidatedAccounts.htm

If the P&L Reserves are merely an accountancy device and, as in the "financial position" of FGP Topco pasted into the analysis, there are only the virtual "Other reserves ", it is, as the financial statements say, just a "going concern" with no ability to engage in a major expansion, including the runway.

I have referred the reluctance of Heathrow's auditor to confirm or otherwise the existence of the £23 billion in the P&L Reserves to FCA (MIU) and to FRC.

You may wish to note that neither in the Airports Commission's report nor in the Transport Committee's hearings is there any mention of Heathrow's owner, FGP Topco Limited in which Heathrow's financial figures are consolidated.

It is therefore not ideal that HAL is in a ring-fenced financial group headed by Heathrow (SP) Limited. See Heathrow Finance plc 2012 Prospectus Page 19 attached before Stansted was sold. The rating agencies analyse up to H(SP)L and it reports to the City.

As before, I am of course for willing for this and that below with the attachments to be in the public domain.

I trust you will find my submissions of substance.

With regards
John Busby

John Busby
[redacted]
My articles: http://www.after-oil.co.uk/runway.htm
http://www.after-oil.co.uk/heathrowfinance.htm

http://www.after-oil.co.uk/LHR_Business.htm

From: [redacted]
Sent: 13 September 2019 10:01
To: economicregulation [redacted]
Subject: Re: CAA CAP1832

>To: Economic Regulation
>From: John Busby

Subject: FGP Topco Limited

By all means publish the attachments to my email, but in regard to the existence, size and consolidation of the profit and loss reserves (sometimes "retained earnings") please emphasise the difficulties in analysing 156 annual reports of 12 years of FGP Topco's chain of 13 main companies, including 4 finance companies, one of which is offshore.

The size and origin of the overall P&L Reserves is significant, in that it means that the borrowings were not needed, interest need have not been paid and corporation tax paid as FGP Topco would have been profitable. Also without them the RAB would have been smaller and airport charges lower.

I have now emailed the replacement auditor (Simon Cleveland of Deloitte) twice for his comments on the P&L Reserves without a response. Before you publish my adverse comments, the auditor's view of them should be sought and published with them for fairness. It may be that I have to withdraw my observations if they are incorrect.

In regard to the paid up shares of just £13.1 million, in the accounts this is augmented by a share premium of £1,411 million (See Note 6 in 2018 accounts), but this was because Ferrovial was benefitted by £522 million by the sale of 37% of its shares, but of no benefit to the company. See the FGP Topco's annual return attached.

Kind regards
John Busby

To: John Busby [redacted]
Subject: RE: CAA CAP1832

Dear John

Thank you for your response to CAP1832, can you confirm you would like us to publish all the document's attached along with your email response.

When we have received all the responses by the deadline date of 11 October 2019 they will be published on the CAA website and you will be informed.

Kind regards
Economic Regulation

From: John Busby [redacted]
Sent: 12 September 2019 12:40
To: economicregulation [redacted]
Cc: [redacted]
Subject: CAA CAP1832

>To: [redacted]
>From: John Busby

Subject: CAP1832

I note that the "ultimate controller" is to remind annually the "top company"of its obligations. There is an overall reluctance to name the top company, FGP Topco Limited, in the Airports Commission's report, the Transport Committee's hearings or even in CAP1832 which defines its obligation to guarantee financial resilience.

Also Heathrow's ultimate CEO is Ferrovial's Jorge Gil and it financial executive is Javier Echave. John Holland-Kaye and Javier Echave are executive directors of its 12th subsidiary, Heathrow Airport Limited. Jorge Gil is also the CEO of Glasgow, Aberdeen and Southampton airports and he should have been examined in the hearings.

I have compiled a summary of FGP Topco's accounts over its ownership of Heathrow from 2007 to 2018 (attached as Heathrow Deficit.jpg), which shows that it has accumulated a loss of £1,260 million over 11 years of operation. However, if it had not issued bonds of now around £17 billion "fair value" it would not have paid over £7 billion in interest to its bondholders. It would have been justified in paying its shareholders a dividend of £3.52 billion as it would have been in profit. Also it would have paid corporation tax instead of taking advantage of the PIE and offset its operating profits with interest payments and financial instruments' costs.

The shareholders paid up only £13.1 **million**, rewarded with over £4 **billion** in dividends and have no risk, which is entirely borne by the bondholders. The rating agencies rate the bond issues of Heathrow (SP) Limited as the top financial company for reasons which escape me.

However, the accretion of nearly £23 billion in 13 Profit and Loss Reserves over the main subsidiaries is disquieting as the origin of this massive sum is obscure. It exceeds the current borrowings by £7 billion. The accounts are supposed to be consolidated in FGP Topco and I have asked Heathrow's auditor to confirm the existence of the P&L

reserves and their content.

On its acquisition by FGP Topco BAA plc had borrowings of ca. £3 billion, but post acquisition had over £13 billion of borrowings so that the acquisition was self-financing. Looking at the overall 2007-2018 accounts, the original level of borrowings would have sufficed. Did the borrowings continue just to avoid corporation tax, while the prospectuses allowed bondholders withholding tax to be unpaid?

I find that CAA CAP1832 is inadequate in avoiding a Carillion type disaster, especially if the 13 P&L Reserves are consolidated in just £1,695 million as in Note 7 of FGP Topco's 2018 annual report.

With regards
John Busby
[redacted]
My articles: http://www.after-oil.co.uk/runway.htm
http://www.after-oil.co.uk/heathrowfinance.htm
http://www.after-oil.co.uk/LHR_Business.htm

Companies House

AR01 (ef)

Annual Return

X4JXN1WQ

Received for filing in Electronic Format on the: **11/11/2015**

Company Name: **FGP Topco Limited**

Company Number: **05723961**

Date of this return: **08/11/2015**

SIC codes: **70100**

Company Type: **Private company limited by shares**

Situation of Registered Office:
THE COMPASS CENTRE NELSON ROAD
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Officers of the company

Company Director 1

Type: **Person**

Full forename(s): MR STUART

Surname: BALDWIN

Former names:

Service Address: THE COMPASS CENTRE NELSON ROAD
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: **/02/1969 *Nationality:* BRITISH

Occupation: INVESTMENT MANAGER

Company Director 2

Type: **Person**

Full forename(s): MR PAUL JOHNSTON

Surname: BARR

Former names:

Service Address: THE COMPASS CENTRE NELSON ROAD
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: **/02/1979 *Nationality:* BRITISH

Occupation: ALTERNATE DIRECTOR

Company Director 3

Type: **Person**

Full forename(s): **CHRISTOPHER WILLIAM**

Surname: **BEALE**

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: **UNITED STATES**

Date of Birth: ****/09/1947** *Nationality:* **AMERICAN**

Occupation: **DIRECTOR**

Company Director 4

Type: **Person**

Full forename(s): **ALI**

Surname: **BOUZARIF**

Former names:

Service Address: **THE COMPASS CENTRE NELSON ROAD**
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Country/State Usually Resident: **QATAR**

Date of Birth: ****/06/1978** *Nationality:* **BELGIAN**

Occupation: **M&A DIRECTOR**

Company Director *5*

Type: **Person**
Full forename(s): **SAMUEL**

Surname: **COXE**

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: **UNITED STATES**

Date of Birth: ****/06/1975** *Nationality:* **AMERICAN**
Occupation: **ALTERNATE DIRECTOR**

Company Director 6

Type: **Person**

Full forename(s): **MR OLIVIER**

Surname: **FORTIN**

Former names:

Service Address: **THE COMPASS CENTRE NELSON ROAD**
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Country/State Usually Resident: **FRANCE**

Date of Birth: ****/03/1974** *Nationality:* **FRENCH**

Occupation: **DIRECTOR**

Company Director *7*

Type: **Person**

Full forename(s): **JORGE**

Surname: **GIL VILLEN**

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: **SPAIN**

Date of Birth: ****/12/1972** *Nationality:* **SPANISH**

Occupation: **LAWYER / ECONOMIST**

Company Director *8*

Type: **Person**

Full forename(s): MR ROBERT WILLIAM

Surname: HORSNALL

Former names:

Service Address: THE COMPASS CENTRE NELSON ROAD
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: **/08/1981 *Nationality:* BRITISH

Occupation: ALTERNATE DIRECTOR

Company Director 9

Type:	**Person**
Full forename(s):	MR DEVEN ARVIND
Surname:	KARNIK
Former names:	
Service Address:	THE COMPASS CENTRE NELSON ROAD HOUNSLOW MIDDLESEX UNITED KINGDOM TW6 2GW

Country/State Usually Resident: QATAR

Date of Birth: **/08/1967 *Nationality:* BRITISH

Occupation: ALTERNATE DIRECTOR

Company Director *10*

Type: **Person**
Full forename(s): **ÉRIC**

Surname: **LACHANCE**

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: **FRANCE**

Date of Birth: ****/11/1973** *Nationality:* **CANADIAN**
Occupation: **ALTERNATE DIRECTOR**

Company Director *11*

Type: **Person**
Full forename(s): **MR INIGO**

Surname: **MEIRAS**

Former names:

Service Address recorded as Company's registered office

Country/State Usually Resident: **SPAIN**

Date of Birth: ****/05/1963** *Nationality:* **SPANISH**
Occupation: **ALTERNATE DIRECTOR**

Company Director *12*

Type: **Person**
Full forename(s): MR MICHAEL JAMES

Surname: POWELL

Former names:

Service Address: THE COMPASS CENTRE NELSON ROAD
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Country/State Usually Resident: UNITED KINGDOM

Date of Birth: **/12/1972 *Nationality:* BRITISH
Occupation: DIRECTOR

Company Director 13

Type: **Person**

Full forename(s): **MS YAN**

Surname: **WANG**

Former names: **YAN**

Service Address recorded as Company's registered office

Country/State Usually Resident: **CHINA**

Date of Birth: ****/08/1975** *Nationality:* **CHINESE**

Occupation: **DIRECTOR**

Company Director 14

Type: **Person**

Full forename(s): **MR DAVID JINLIN**

Surname: **XIE**

Former names:

Service Address: **THE COMPASS CENTRE NELSON ROAD**
HOUNSLOW
MIDDLESEX
UNITED KINGDOM
TW6 2GW

Country/State Usually Resident: **UNITED STATES**

Date of Birth: ****/01/1978** *Nationality:* **AMERICAN**

Occupation: **ALTERNATE DIRECTOR**

Statement of Capital (Share Capital)

Class of shares	**DEFERRED ORDINARY £0.10**	*Number allotted*	**1350**
		Aggregate nominal value	**135**
Currency	**GBP**	*Amount paid per share*	**0.1**
		Amount unpaid per share	**0**

Prescribed particulars

THE DEFERRED ORDINARY SHARES DO NOT CARRY VOTING RIGHTS.

Class of shares	**ORDINARY**	*Number allotted*	**5459866405**
		Aggregate nominal value	**13103679.372**
Currency	**GBP**	*Amount paid per share*	**0.0024**
		Amount unpaid per share	**0**

Prescribed particulars

EACH ORDINARY SHARE IN THE COMPANY CARRIES ONE VOTING RIGHT.

Statement of Capital (Totals)

Currency	**GBP**	*Total number of shares*	**5459867755**
		Total aggregate nominal value	**13103814.372**

Full Details of Shareholders

The details below relate to individuals / corporate bodies that were shareholders as at 08/11/2015 or that had ceased to be shareholders since the made up date of the previous Annual Return

A full list of shareholders for the company are shown below

Shareholding 1 : **88 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
Name: **ALINDA AIRPORTS L.P.**

Shareholding 2 : **62 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
Name: **ALINDA AIRPORTS UK L.P.**

Shareholding 3 : **95 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
6 shares transferred on 2014-10-31

Name: BAKER STREET INVESTMENT PTE LTD

Shareholding 4 : **185 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
10 shares transferred on 2014-10-31
Name: **CAISSE DE DEPOT ET PLACEMENT DU QUEBEC**

Shareholding 5 : **332 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
Name: **HUBCO NETHERLANDS BV**

Shareholding 6 : **318 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
Name: **QATAR HOLDING AVIATION**

Shareholding 7 : **135 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
Name: **STABLE INVESTMENT CORPORATION**

Shareholding 8 : **135 DEFERRED ORDINARY £0.10 shares held as at the date of this return**
Name: **USS BUZZARD LIMITED**

Shareholding 9 : **357901364 ORDINARY shares held as at the date of this return**
Name: **ALINDA AIRPORTS L.P.**

Shareholding 10 : **252245828 ORDINARY shares held as at the date of this return**
Name: **ALINDA AIRPORTS UK L.P.**

Shareholding 11 : **611790029 ORDINARY shares held as at the date of this return**
36854099 shares transferred on 2014-10-31
Name: **BAKER STREET INVESTMENT PTE LTD**

Shareholding 12 : **689011234 ORDINARY shares held as at the date of this return**
36854099 shares transferred on 2014-10-31
Name: **CAISSE DE DEPOT ET PLACEMENT DU QUEBEC**

Shareholding 13 : **1364971386 ORDINARY shares held as at the date of this return**
Name: **HUBCO NETHERLANDS BV**

Shareholding 14 : **1091973281 ORDINARY shares held as at the date of this return**
Name: **QATAR HOLDING AVIATION**

Shareholding 15 : **545986641 ORDINARY shares held as at the date of this return**
Name: **STABLE INVESTMENT CORPORATION**

Shareholding 16 : **545986642 ORDINARY shares held as at the date of this return**
Name: **USS BUZZARD LIMITED**

Authorisation

Authenticated

This form was authorised by one of the following:

Director, Secretary, Person Authorised, Charity Commission Receiver and Manager, CIC Manager, Judicial Factor.

FGP Topco Limited

Annual report and financial statements for the year ended 31 December 2018

Company registration number: 05723961

FGP Topco Limited

Contents

FGP Topco Limited

Officers and professional advisers

Directors
Ahmed Ali Al-Hammadi
Stuart Baldwin
Christopher Beale
Olivier Fortin
Jorge Gil Villen
Michael Powell
David Xie

Jinhong Chen	(Alternate to David Xie)
Samuel Coxe	(Alternate to Christopher Beale)
Deven Karnik	(Alternate to Ahmed Ali Al-Hammadi)
Tom Kelly	(Alternate to Michael Powell)
Alexander Leonard	(Alternate to Stuart Baldwin)
Iñigo Meirás	(Alternate to Jorge Gil Villen)

Registered office
The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor
Deloitte LLP
Statutory Auditor
1 New Street Square
London, United Kingdom
EC4A 3BZ

Bankers
Lloyds Bank plc
1st Floor
10 Gresham Street
London
EC2V 7AE

FGP Topco Limited

Strategic report

FGP Topco Limited (the 'Company' or 'FGP Topco') is the ultimate parent company of Heathrow Airport Holdings Limited group ('HAH Group'). The Company and its subsidiaries is a group of companies that owns Heathrow Airport ('Heathrow') and operates the Heathrow Express rail service (the 'Group'). Operations of the Group are conducted through HAH Group, and therefore any reference to operations relates to Heathrow Airport Holdings.

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

This Strategic report is presented in five sections:

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

Management review – overview of the year ended 31 December 2018, along with an outlook for 2019;

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2018 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered;

Leadership and governance – description of the Board of Directors (the 'Board') of HAH 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 some of the key business risks identified by the HAH Group Executive Committee and Board.

Business overview

Heathrow's business model
Heathrow is one of the best-connected hub airports in the world, with 84 global airlines operating regular scheduled flights to 203 destinations. Heathrow is the primary airport in London, which is the world's largest origin and destination aviation market with over 150 million passengers travelling to and from London annually. With 80.1 million passengers in 2018, Heathrow is Europe's busiest airport and the world's seventh busiest airport.

Heathrow provides service to a range of market segments, including business and leisure travellers, direct and transfer passengers and long and short-haul routes, operated by a diversified range of major airlines. As well as earning income from services to airlines, Heathrow also generates revenue from a variety of other 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.

Heathrow has maintained a strong focus over recent years on operational performance, improving the passenger experience and investing in new and upgraded facilities. This focus and investment has resulted in Heathrow being named 'Best Airport in Western Europe' by Skytrax for the fourth consecutive year in 2018, as well the 'World's Top Airport Terminal' for Terminal 2, and 'World's Best Airport Shopping' for the ninth consecutive year.

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 Economic regulation provides significant cash flow predictability within each regulatory period, which usually last five years.

Heathrow's 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. Heathrow's vision is to give passengers the best airport service in the world, and is underpinned by four strategic priorities:

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

Transform customer service; To deliver the world's best passenger experience, Heathrow will work with the Heathrow community to transform the service it gives 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.

Sustainable growth: To operate and grow Heathrow airport sustainably, now and in the future.

***Business overview** continued*

Heathrow's Infrastructure

The Group has invested almost £11 billion transforming Heathrow's infrastructure over the last decade including £793 million invested in 2018 alone (2017: £687 million).

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 2018 it operated at 98.5% (2017: 98.8%) of this limit.

Terminals

Each of Heathrow's four operational terminals is either new or recently refurbished. The busiest terminals are Terminal 2 and 5. Terminal 2, which opened in June 2014, handled 18.5 million passengers in 2018 (2017: 17.8 million) and Terminal 5 handled 32.8 million passengers in 2018 (2017: 32.3 million). Heathrow airport's terminal capacity is currently estimated to be 85 million passengers per year.

Baggage systems

Significant investment has been made in Heathrow's baggage infrastructure including the underground automated baggage system between Terminal 3 and Terminal 5 and the Terminal 3 integrated baggage system which became fully operational in April 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 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.

Expansion of Heathrow – sustainable growth

Heathrow has been operating close to its permitted limit on annual aircraft movements for several years and is the busiest airport in the world with two or fewer run-ways. As a result, for a significant period, management has been considering how to deliver sustainable growth and increased airport capacity in a way which delivers greater benefits as the country's only Hub airport, whilst mitigating the adverse impacts of expansion, particularly on local communities. The UK Parliament voted overwhelmingly in favour of the Airport's National Policy Statement ('NPS') in June 2018, and Heathrow has made significant progress on plans to deliver the sustainable growth under the terms of the NPS. A more detailed update is included in the Management review section of this Strategic report.

Heathrow's 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.

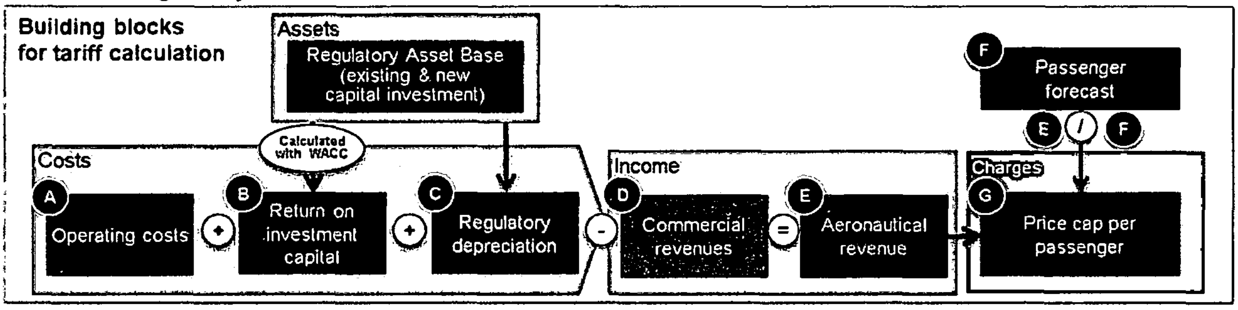
The Economic regulation sees the CAA setting the maximum level of airport charges for Heathrow, generally for five-year regulatory periods, using a per passenger 'price cap' mechanism ("RPI +/- X") which incorporates an allowed return on the Regulatory Asset Base ('RAB'). For the current regulatory period, this mechanism means the maximum allowable yield per passenger changes from 1 January each year by RPI minus 1.5% (RPI as at prior year April.). The building blocks of this "Single Till" calculation are shown below. The CAA first determines the regulated 'revenue requirement'. This is calculated as the sum of forecast operating expenditure less non-aeronautical 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 the resulting revenue requirement divided by forecast passenger numbers produces the per passenger maximum allowable yield.

Heathrow's current regulatory period ('Q6') initially ran from 1 April 2014 to 31 December 2018 and was subsequently extended to 31 December 2019 under the same price control. Further information on the regulatory environment beyond 2019 is included in the Management review section of the Strategic report.

Heathrow's regulation is consistent with the economic regulation of other UK regulated industries (such as telecoms and the energy sector). This form of economic regulation is sometimes referred to as 'incentive regulation', in Heathrow has an incentive to outperform the economic settlement by attracting more passengers, reducing operating costs or delivering higher commercial revenues. In the opposite case, Heathrow must absorb negative financial impact, with no adjustment for shortfalls in passenger numbers or additional costs unless agreed with the CAA, such as where Heathrow incurs additional security costs above an established threshold when implementing new security directives imposed by the EU or the UK Government. There is a mechanism (the 'K' factor) designed to correct for any under recovery (dilution) or over recovery (concentration) in charges compared to the maximum allowable yield, which may arise due to changes in passenger mix or load factors compared to those forecast at the time of price setting the during the prior year.

Business overview *continued*

Heathrow's regulatory environment *continued*



Heathrow's income

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

Aeronautical income

Aeronautical income reflects the fees charged by Heathrow to the airport's airline customers. These charges cannot exceed the regulated maximum allowable yield per passenger. The tariff structure can vary in consultation with stakeholders, but includes three key elements:

Passenger charges, based on the number of passengers per aircraft and levied in respect of all departing passengers. There is no charge in respect of crew members. Charges vary by route area: European, domestic and Rest-of-world.

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

Parking charges, levied for each 15-minute slot after 30 and 90 minutes (narrow and wide-bodied aircraft respectively).

Non-aeronautical income

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

Alternative Performance Indicators (APMs)

Heathrow uses many performance indicators and metrics across the business to monitor and drive improvements in safety, efficiency and passenger experience. These are aligned to the four strategic objectives outlined in the Business overview (page 3). The indicators are set primarily at the beginning of a Regulatory period so that performance can be reliably and consistently tracked against the Regulatory settlement, and many have been tracked consistently across several regulatory periods. Most of the indicators and metrics used and disclosed in this report are also used widely across the Airport industry and so enable management and stakeholders to compare Heathrow performance against other similar airports.

A number of financial measures are included which have been categorised as Alternative Performance Measures (APMs) as per the European Securities and Markets Authority (ESMA) guidelines on use of non-GAAP Financial Measures. An APM in this report is a financial measure other than a measure defined under IFRS, used by Heathrow management when these measures provide stakeholders with useful and appropriate information. The Group uses such measures to measure operating performance and liquidity, in presentations to the Board and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of its operating cash flow and liquidity. The Directors believe that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The APMs may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS. An explanation of the relevance of each of the non-GAAP measures, a reconciliation of the non-GAAP measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below. The Group does not regard these non-GAAP measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS.

FGP Topco Limited

Strategic report *continued*

Business overview *continued*

Alternative Performance Indicators (APMs) *continued*

Primary financial statement format

The primary financial statements are prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2018.

A columnar approach has been adopted in the Consolidated Income Statement (page 35) and the impact of certain items is shown in a separate column. This column includes certain re-measurements as listed in (i) and (ii), which management separates from the underlying operations of the Group. Also, this column indicates exceptional items as listed in (iii) and the effect on taxation of change in tax rates in (iv) and (v) below. By isolating certain re-measurements and exceptional items, management believe the underlying results provides the reader with an understanding of the performance of the Group by concentrating on the matters over which it exerts most influence, whilst recognising that information on these additional items is with the financial statements should the reader wish to refer to them.

The column "certain re-measurements and exceptional items' in the Consolidated Income Statement contains the following:

- fair value gains of losses on investment properties held by the Group,
- derivative financial instruments and the fair value gains or losses on any underlying hedged items that a part of a fair value hedging relationship
- exceptional items,
- the associated tax impacts of the items in (i), (ii) and (iii) above, and
- the impact on deferred tax balances of known future changes in tax rates

The Group has defined the following financial measures as APMs derived from IFRS;

APM	Definition and use
EBITDA	*Earnings before interest, taxes, depreciation and amortisation* Used as a metric to track the operational performance of Heathrow including Revenue and Operating Costs before depreciation and amortisation. The Group presents EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortisation expense) EBITDA for the year-ended 31 December 2018 was £1,957 million (2017: £1,909 million).
Adjusted EBITDA	*Adjusted Earnings before interest, taxes, depreciation, amortisation and certain re-measurements* Management uses Adjusted EBITDA to monitor performance of our segments and is therefore the measure of segment profit that the Group presents under IFRS. Adjusted EBITDA s also presented on a consolidated basis because management believes it is important to consider our profitability on a basis consistent with that of our operating segments. When presented on a consolidated basis, adjusted EBITDA is a non-GAAP measure. Management believes that adjusted EBITDA should therefore, be made available to securities analysts, investors and other interested parties to assist in their assessment of the trading performance of our business. Adjusted EBITDA is calculated by excluding certain remeasurements from EBITDA, namely the fair value movements on Investment properties which are mainly market driven and over which management has little influence. Adjusted EBITDA for the year-ended 31 December 2018 was £1,840 million (2017: £1,760 million).
Adjusted operating profit	Adjusted Operating Profit is Profit before Finance costs and tax and certain re-measurements, namely the fair value movements on Investment properties. The reconciliation to IFRS is shown on the face of the Consolidated income statements. Adjusted operating profit for the year-ended 31 December 2018 was £1,088 million (2017: £1,062 million)
Adjusted profit before tax	Adjusted Profit before tax is Profit before tax and certain re-measurements, namely the fair value movements on Investment properties and the fair value movements on financial instruments. The reconciliation to IFRS is shown on the face of the Consolidated income statements. Adjusted profit before tax for the year-ended 31 December 2018 was £322 million (2017: £231 million).
Adjusted profit after tax	Adjusted Profit after tax is Profit before certain re-measurements, namely the fair value movements on Investment properties and the fair value movements on financial instruments and related tax charges or credits. The reconciliation to IFRS is shown on the face of the Consolidated income statements. Adjusted profit after tax for the year-ended 31 December 2018 was £252 million (2017: £179 million)

Alternative Performance Indicators (APMs) *continued*
The Group has defined the following financial measures as APMs derived from IFRS *continued*

Underlying net Finance costs	Underlying net finance costs are adjusted for capitalised borrowing costs and amortisation of finance fees and discounts. Management believes underlying net finance costs provide a year on year *comparison of financing costs before accounting adjustments.* The reconciliation from total finance costs to total finance costs before certain re-measurements is shown on the face of the Consolidated income statement. The reconciliation from total Finance costs before certain re-measurements to Underlying Net Finance costs is shown on page 17. Underlying net Finance costs for the year-ended 31 December 2018 were £807 million (2017: £862 million).
Retail income per passenger	*Total Retail income divided by (unrounded) total number of departing and arriving passengers* A widely used indicator for Airport commercial activities, used by management to drive lower the amount of required income needed through aeronautical charges.

Regulatory performance measures

These regulatory performance measures are used to monito progress against our regulatory settlements and other strategic objectives. As the regulatory performance measures are directly related and specifically defined within our Economic regulation, it would not make sense to use IFRS measures to track against our regulatory settlement.

RAB	*Regulatory Asset Base* The regulated asset base is used in the Economic regulation pricing formula. It is a regulatory construct representing the invested capital on which Heathrow will earn a return. By investing efficiently in the Airport in consultation with our stakeholders, we add to the RAB over time. The RAB is reconciled to GAAP Fixed Assets in the separately published Regulatory Accounts. It is used in key financial ratios and the Regulatory accounts. The RAB at 31 December 2018 was £16,200 million (2017: £15,786 million).
Gearing and Regulatory Asset Ratios	*Gearing ratios* Under the Group's financing agreements, gearing ratios are calculated by dividing consolidated nominal net debt by RAB. The Groups objectives when managing capital are to safeguard the Groups ability to continue as a going concern in order to provide return for shareholders, benefits to other stakeholders, and to maintain an optimal capital structure. Amongst other methods, the Group monitors its capital using its gearing ratios.. Like other regulated industries in the UK, gearing is referenced by the ratio of Consolidated nominal net debt to the RAB. *Regulatory Asset Ratio (RAR)* A trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 90.0% until Heathrow Finance 2019 Notes either mature, are repaid or consent is obtained to change covenant level from when covenant moves to 92.5%.

Non-financial performance indicators

	Definition
ATM	*Air Transport Movement* Commercial flights including schedules, used as a metric to track the operational performance of the Heathrow including schedules, charter and cargo, but excluding empty position movements or private aircraft. Passenger ATMs exclude cargo flights.
ASQ	*Airport Service Quality* An independent quarterly survey-based rating of Airports, administered by the Airports Council International. The score ranges from 1 to 5.
Baggage Connection	*Percentage of connecting bags which travel with their passenger* Shown either as a % or as number of bags per 1,000.
Departure punctuality	*Percentage of flights departing within 15 minutes of scheduled departure time.*
Security Queuing	*Percentage of departing passengers passing through security within a five minutes period* This is prescribed under the CAA Service Quality Rebate Scheme to identify certain service standards that passengers should expect from Heathrow.

FGP Topco Limited

Strategic report *continued*

Management review

Review of the year

We continued to deliver strong performance in 2018 and welcomed a record 80 million passengers travelling through the UK's only hub airport, up 2.7% on last year. We are one of only seven airports in the world to have exceeded 80 million passengers in a single year, and the only airport to achieve this milestone with only 2 runways. Whilst continuing to deliver growth, we also sustained our high customer satisfaction scores and were named 'Best Airport in Western Europe' for the fourth year running, and 'Best Airport for Shopping' for the ninth year in the most recent Skytrax World Airport Awards.

We also progressed the four strategic priorities underpinning our vision to give our passengers the Best Airport Service in the World; making Heathrow a great place to work, transforming our service to passengers and airlines, beating the business plan over the current regulatory period and operating and growing Heathrow sustainably today and in the future.

Critical to the success of our vision is attracting, retaining and developing high quality talent. This is why making Heathrow a great place to work and creating careers where people can fulfil their potential is at the very heart of our strategy. In 2018 an outstanding 472 colleagues were promoted and 755 colleagues attended training to advance their managerial skills.

We delivered outstanding service to our passengers during our busiest year ever. We achieved an excellent 4.15 out of 5.0 score in the global Airport Service Quality (ASQ) survey in 2018 as well as maintaining our high levels of successful baggage connections and departures punctuality. In addition, reflecting the success of our pricing strategy to boost domestic connectivity, short haul traffic grew by 2.2% and intercontinental by 3.1%. Intercontinental growth continued to be driven by routes to North America through increased flight frequency and aircraft size, while passenger numbers to-and-from the Asia Pacific region also grew strongly driven by our new Chinese routes.

As part of our Heathrow 2.0 plan for sustainable growth, we released our Carbon Neutral Growth Roadmap, setting out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral. We also launched our Living Wage Roadmap, which shows how we will ensure that our supply chain will guarantee their employees the Living Wage. Building on Heathrow achieving Living Wage accreditation in 2017, the Roadmap sets ambitious goals for 100% of target contracts to be amended by the end of 2020.

Despite continuing to invest in winter resilience, special passenger assistance, security and expansion, we have continued to deliver declining costs per passenger. On the revenue side, aeronautical revenues grew by 1.7% compared to 2017 despite a delivering a 1% reduction in aeronautical revenue per passenger. Retail revenues grew by 8.6% as passengers responded strongly to several successful retail initiatives. We saw more passengers participating in our retail offering with each spending more. As a result of these dynamics, total revenues were almost £3 billion, up 3% on 2017. We raised close to £2.3 billion of debt financing globally in 2018, further strengthening our liquidity position and providing additional duration and diversification to our £14 billion consolidated debt.

2018 also saw the commencement of our plans to deliver expansion following the UK Parliament passing the airports National Policy Statement in June by a substantial majority.

We continue engaging with our regulator and airline stakeholders to define the regulatory framework that will enable expansion that is affordable, sustainable and financeable. Following the launch of our initial planning consultation in January 2018, we also launched a consultation on airspace changes in January 2019 and are making final preparations for the statutory consultation on our masterplan for expansion in mid-2019. These consultations provide an opportunity for our local community and other stakeholders to help us shape Heathrow's future.

Key business developments

Mojo

We are committed to making Heathrow a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. We continue to enhance our leadership capabilities and provide great career opportunities supported by some of the best development and training. In 2018, 472 colleagues were promoted and 755 colleagues attended training to advance their managerial skills.

We take a pragmatic and proactive approach to improving our Health and Safety credentials through engaging our colleagues. We have seen a positive shift in our culture and behaviours which remains a significant driver in achieving great results and preventing or reducing the likelihood of incidents occurring. In 2018, our lost time injuries metric improved to 0.33 (2017: 0.48).

Transform customer service

In 2018, we continued to deliver strong levels of service across the passenger journey. Over the period, average service standards reduced slightly compared to 2017 as a result of one of the worst winters in recent years and strong passenger growth putting pressure on some key processes such as check-in, security, immigration and baggage. Despite this, our service standards remained high throughout the year, with limited or no disruption to our operations.

Management review *continued*
Key business developments *continued*
Transform customer service continued
In 2018, we achieved an ASQ score of 4.15 (2017: 4.16) out of 5.00 compared to 3.97 just five years ago. In addition, 81.9% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2017: 82.5%) illustrating the strength and resilience of our operations. As part of our drive to provide the best airport service in the world, we introduced our 'Service Signatures' programme highlighting a set of behaviours that help guide the way in which we all deliver an even better service to our passengers, customers and colleagues.

Key service standard performance indicators [1]	2018	2017
ASQ[2]	**4.15**	4.16
Baggage connection[2]	**98.8%**	99.0%
Departure punctuality[2]	**77.6%**	80.2%
Security queuing[2]	**96.8%**	97.3%

[1] For the twelve months ended 31 December 2018

[2] Airport service quality (ASQ), percentage of connecting bags travelling with the passenger (Baggage connection), percentage of flights departing within 15 minutes of schedule (Departure punctuality) and percentage of passengers passing through central security within five-minute period (Security queuing)

Investing in Heathrow

We invested £666 million in 2018 (2017: £604 million) on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continue to develop our plans for expanding Heathrow for which investment amounted to an additional £127 million in the year (2017: £83 million).

Safety continued to be the priority for Heathrow and 2018 was the busiest and safest year in the quinquennium for our capital investment teams working across the airport, with the best ever performance on Safe Days (no. of days without a lost-time incident), peaking at 148 (2017: 112).

The next stage of Passenger Flow Monitoring went live, continuing the focus on passenger experience improvements by enabling the Airport Operations Centre to monitor passenger numbers and flow, predict congestion in key areas and direct resources in the most efficient and effective way possible. The roll out of self-service bag drop facilities maintained its momentum with 48 units going live in Terminals 5 alone.

We completed a significant project to install Oyster card electronic passenger gates at the Heathrow terminals of Heathrow Express enabling easier transfer for our passengers to-and-from London, and have received all relevant approvals to install the gates at Paddington during 2019.

The Hold Baggage Screening (HBS) upgrade works progressed well in 2018. Terminal 2 was certified as Standard 3 Department for Transport (DfT) compliant and Terminal 5 met the DfT target of 83% screened at Standard 3 by September 2018. The Terminal 5 programme remains on plan for the target of 100% screening at Standard 3 by April 2019.

Beat the plan

New intercontinental routes

We added 6 new direct routes to growth cities in China, doubling the number of connections from Heathrow, the UK's only hub and primary gateway airport to China. New routes were also announced to North America, with British Airways adding a new direct route to Pittsburgh and American Airways a new route to Phoenix, both commencing in April 2019.

Record passenger traffic

During 2018, we welcomed a record 80.1 million passengers, an increase of 2.7% on 2017 (2017: 78.0 million). December 2018 was the 26th consecutive month of record passenger numbers. Aircraft continue to fly fuller, with load factors increasing to 79.4% (2017: 78.0%). The average number of seats per passenger aircraft increased to 213.4 (2017: 212.3) driven by aircraft upgrades on European and Middle Eastern routes.

Reflecting the success of our pricing strategy to boost domestic connectivity, short haul traffic grew by 2.2% and intercontinental by 3.1%. Intercontinental growth continued to be driven by routes to North America through increased flight frequency and aircraft size, while passenger numbers to-and-from the Asia Pacific region also grew strongly driven by our new Chinese routes and increased frequencies to India.

Management review *continued*
Beat the plan *continued*
Record passenger traffic *continued*

Passengers (Millions)	2018	2017	Var %[1]
UK	**4.8**	4.8	(0.1)
Europe	**33.3**	32.4	2.6
North America	**18.1**	17.4	4.3
Asia Pacific	**11.5**	11.3	2.4
Middle East	**7.7**	7.6	0.5
Africa	**3.3**	3.2	5.3
Latin America	**1.4**	1.3	4.4
Total passengers[2]	**80.1**	78.0	2.7

Key traffic performance indicators	2018	2017	Var %
Passenger ATM[1]	**472,744**	471,082	0.4
Load factors (%)[2]	**79.4**	78.0	1.8
Seats per ATM	**213.4**	212.3	0.5
Cargo tonnage ('000)	**1,685**	1,698	(0.8)

1 *Calculated using unrounded passenger figures*
2 Passenger air traffic movements (ATM) includes commercial flights including scheduled, chartered and cargo and excluding positioning and private flights, Load factor is a percentage of seats filled by passengers.

Sustainable growth
Heathrow 2.0
As part of our Heathrow 2.0 plan for sustainable growth, we released our Carbon Neutral Growth Roadmap in November 2018. This set out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral. The Roadmap outlines four key action areas including cleaner aircraft technology, improvements to airspace and ground operations, sustainable aviation fuels, and carbon offsetting methods. As an important step towards encouraging the development of commercial electric technology, in October we announced that the first electric-hybrid aircraft to be put into regular service at Heathrow will not have to pay landing charges for a year, a prize worth nearly £1 million.

2018 was a busy year for our charity partnerships as we launched a new partnership with CARE International UK. Through colleague and passenger fundraising, we are supporting CARE's 'Lend with care' programme which enables donors to make loans to entrepreneurs in developing countries, helping them to build a business and to lift themselves and their families out of poverty. We also ran our third 'Race the Plane' event, with funds raised benefitting the Duke of Edinburgh's Award Scheme and the Heathrow Community Fund. Over 400 cyclists raced a United Airlines flight form Heathrow to New York, with the teams working together to complete 30-minute sessions on stationary bikes outside Terminal 2. The teams managed to beat the plane, raising over £100,000 in the process.

In November we held the annual flagship Heathrow Business Summit, welcoming over 250 local small and medium enterprises (SMEs) to discuss contract opportunities with our business partners, as well as to gain insight on how businesses can export their products through Heathrow. We also progressed toward our commitment to open four Logistics Hubs across the UK to support delivery of Heathrow expansion, with airport delegates visiting all 65 interested sites on the longlist. The shortlist will be announced in Spring 2019.

We also launched our Living Wage Roadmap, which shows how we will ensure that our supply chain will guarantee their employees the Living Wage. Building on Heathrow achieving Living Wage accreditation in 2017, the Roadmap sets ambitious goals for 100% of target contracts to be amended by the end of 2020.

Throughout 2018, we have been considering how we can best engage our passengers with our sustainability strategy. Building on some detailed research carried out at the start of the year, in November we launched a campaign to highlight some of our key areas of focus and the actions passengers can take to contribute. For example, we have raised awareness that passengers can bring their own water bottles with them when they travel through Heathrow as we free refill points after security, helping to reduce single-use plastic bottles. We've partnered with 'Refill' to ensure directions to all refill points at the airport are included on their free-to-use smart phone app.

Task force for climate related financial disclosures (TCFD)
We take seriously our responsibility to help develop a transparent, consistent and effective system for climate related financial disclosures. We already publish substantial quantities of information in publicly available sustainability reports, including in our Climate Change Adaption report, in annual Sustainability Progress reports, and in our Carbon Footprint reporting. We will expand and improve our climate related disclosures within our Annual Report and financial statements in 2019 and beyond to ensure Heathrow provides clear and useful disclosures relevant to the lifespan of an Expanded Heathrow.

Key expansion developments
We continue to make significant progress in expanding the airport following the overwhelming vote in Parliament in favour of the Airports National Policy Statement ('NPS') in June 2018. Initial ground surveys at 650 sites across the land required for the project have been completed and the airport is moving towards confirming its preferred masterplan. We have incorporated feedback from a successful initial public consultation at the start of 2018 and will hold two consultations in 2019 to seek further views on the plans. The first of those consultations on airspace and future runway operations is open until 4th March 2019 and will be followed by a consultation in June 2019 which will detail our preferred masterplan. The announcement of these consultations comes as the latest independent polling from Populus released in September 2018 continued to show that more local residents around Heathrow support than oppose Heathrow Expansion, a result which has been consistent since polling started in 2015. After reviewing and assessing feedback from the two consultations in 2019, we will prepare a final masterplan and submit a development consent order application to the Secretary of State in 2020, commencing a consenting process which will take a fixed period of 18 months. If Heathrow is granted development consent, the new runway is expected to open in 2026.

We are continuing strong engagement with businesses across the UK. We hosted 10 regional Business Summits in 2018 at various locations across the UK. These summits help to increase the number of SMEs in the airport's multi-billion-pound supply chain. We also launched an Innovation Partnership program inviting innovative ideas to help deliver the expansion plans more affordably and sustainably. After reviewing over 150 submissions we have announced a shortlist of 37 from varying contributors including local authorities, retail businesses and airline partners, which are now being developed into business cases for final consideration.

We remain committed to delivering a sustainable, affordable and financeable expanded airport. Heathrow's expansion programme will be entirely privately funded at no cost to the taxpayer. We are also committed to maintaining existing strong investment grade credit ratings throughout the period of expansion. We are confident that we can expand the airport whilst keeping passenger charges close to 2016 levels, representing value for money for consumers and meeting the Government's affordability challenge. Our proposals to expand Heathrow intend to unlock billions of pounds in Economic growth for the UK, create tens of thousands of new skilled jobs across the regions, meet tough environmental and noise limits, open up to 40 new long-haul trading links, improve domestic connectivity and secure a skills legacy for future generations. Over the next 12 months alone, we expect to sign around £150 million worth of contracts with British businesses, creating up to 900 new jobs and 200 new apprenticeships.

In parallel with the ongoing development consent process outlined above, we will continue to participate in the judicial review proceedings relating to the Government's decision to designate the Airports NPS, the hearing for which has now been set for March 2019. Securing consent for large-scale infrastructure projects often involves judicial review and we remain fully confident that the Government's decision-making process was robust. The Airports NPS was overwhelmingly approved by a significant cross-party majority in Parliament. To date, there have been no successful challenges against the designation of a NPS.

Regulatory developments
The CAA's fundamental objective in developing the framework for the next regulatory period (known as H7) is to strike an appropriate balance between affordability and financeability to support capacity expansion in the best interest of consumers. Guided by this objective, the CAA continues to progress its thinking on the H7 framework with a new consultation launched in October 2018: 'Economic regulation of capacity expansion at Heathrow: policy update and consultation' (CAP1722). In this consultation the CAA discusses a number of areas, outlined below;

a) H7 is due to start in January 2022 and the CAA confirms that Heathrow should produce a Business Plan for H7 by the end of 2019 to commence the price setting process.

b) The CAA assesses that there are merits to the case for a potential modification to Heathrow's license by means of a new condition promoting economy and efficiency in the operation, maintenance and development of the airport.

c) The CAA provides a further update on its approach to issues raised by potential alternative arrangements for delivering new capacity at Heathrow airport.

d) The CAA also consults on its decision regarding its surface access policy and confirms the "user pays" principle.

Management review *continued*

Regulatory developments *continued*

Finally, alongside the consultation documents, the CAA published a report assessing representations on scarcity rents accruing to airlines operating at Heathrow. The report acknowledges the existence of scarcity rents and considers that further work is required to establish the value. It also dismisses the position that scarcity rents are competed away on a route by route basis. The CAA plans to provide additional clarity on the regulatory framework in Q2 2019 upon publication of the next consultation papers.

Delivering an affordable expanded Heathrow is a very important issue for consumers and airlines. We have worked closely with our airline partners to refine our master plan to meet the Government's challenge to deliver expansion with average charges close to 2016 levels in real terms. In addition to the work under way on the H7 framework, based on an MoU agreed with major carriers, a Formal Agreement has been finalised between Heathrow and airline lawyers on the airline charges to be applied prior to the start of H7. Under the Formal Agreement, we will offer a rebate to all airlines depending on actual passenger traffic volumes. The rebate creates an incentive for airlines to make better use of our existing capacity by way of a volume discount while also providing downside protection in the event that volumes were to fall below current levels prior to 2022. Another benefit of the Formal Agreement is that it will enable all parties to concentrate on the longer term aim of securing a regulatory settlement for H7 which will support affordable and financeable expansion of Heathrow. The deal remains subject to consultation with the CAA and is not intended to replace the standard regulatory process for H7 which will continue in line with the CAA timetable.

Brexit

We continue to monitor progress made by the UK Parliament as it debates the proposed Withdrawal Agreement. While the continued delays in reaching an agreement increase uncertainty for UK businesses, the aviation industry remains well positioned as a result of the EU aviation contingency plans.

These plans ensure that in a no deal scenario and subject to a reciprocal offer by the UK, airlines will be able to continue to fly between the EU and UK. In addition, UK citizens will be permitted to travel visa free in the EU for up to 90 days and the EU will continue to recognise the UK for the 'EU One Stop Aviation Security Regime'. While these contingency arrangements are only intended to be in place until the end of 2019, if enacted we anticipate that there will be very little, if any, impact on flights if the UK departs the EU without a deal.

Separately, the UK Government is continuing work to implement replacement Air Service Agreements (ASAs) for the 17 countries which are currently covered by the UK's membership of the EU. The Government has already indicated that a number of these ASAs, including the agreement with the US, have been agreed and the remaining agreements will be put in place well in advance of the termination of the EU contingency plans or the UK leaving the EU. These new ASAs, combined with the existing 111 bilateral agreements with international destinations, will ensure that the vast majority of traffic at Heathrow is unaffected by the outcome of the negotiations on the transition agreement.

We have a unique position as we are the UK's only hub airport and global gateway. We benefit from a very well diversified traffic mix, more stable passenger traffic and demand than any other European airport and a robust regulatory framework. We have taken an extremely responsible approach to both operational and financial planning for 2019. Extensive operational contingency plans have been developed which will help to minimise any potential impact on passengers. In addition to maintaining substantial headroom to our covenant levels, we raised close to £2.3 billion from global investors in 2018. This extends our liquidity horizon until March 2021 and ensures that Heathrow has sufficient resources to cope with a no-deal Brexit and still meet its obligations, including progressing our expansion plans.

Financial review

Basis of presentation of financial results

FGP Topco Limited consolidated financial statements are prepared under International Financial Reporting Standards ('IFRS').

Summary performance

In the year ended 31 December 2018, the Group's operating profit before certain re-measurements was £1,088 million (2017: £1,062 million) and its profit after tax including certain re-measurements was £381 million (2017: £486 million profit). Key performance indicators are shown below and described in more detail on pages 5 and 6.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Revenue	**2,970**	2,884
Operating costs before depreciation and amortisation	**(1,130)**	(1,124)
Adjusted EBITDA[1]	**1,840**	1,760
Depreciation and amortisation	**(752)**	(698)
Adjusted operating profit[2]	**1,088**	1,062
Net finance costs before certain re-measurements	**(766)**	(831)
Adjusted profit before tax[3]	**322**	231
Tax charge on profit before certain re-measurements	**(70)**	(52)
Adjusted profit after tax[3]	**252**	179
Including certain re-measurements		
Fair value gain on investment properties	**117**	149
Fair value gain on financial instruments	**15**	203
Tax charge on certain re-measurements	**(3)**	(45)
Profit after tax	**381**	486

[1] Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and certain re-measurements.
[2] Adjusted operating profit is adjusted EBITDA including depreciation and amortisation.
[3] Adjusted profit is profit before re-measurements and tax thereon.

For the year ended 31 December 2018, Adjusted EBITDA was £1,840 million (2017: £1,760 million) and EBITDA was £1,957 million (2017: £1,909 million) after adjusting for fair value gain/loss on investment properties of £117 million (2017: £149 million).

Management uses Adjusted EBITDA to monitor performance of the segments as it believes it more appropriately reflects the underlying financial performance of the Group's operations. On a monthly basis management reviews results, paying particular attention to the airport operations over which it exercises control on a day-to-day basis.

Certain re-measurements comprise fair value movements on investment properties, which are mainly market-driven and over which management has little influence; fair value gains and losses on financial instruments which are subject to external financial market fluctuations; tax associated with these items and the effects of changes in tax rates, which are set by statute.

Revenue

In the year ended 31 December 2018, revenue increased 3.0% to £2,970 million (2017: £2,884 million).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Aeronautical	**1,745**	1,716	1.7
Retail	**716**	659	8.6
Other	**509**	509	0.0
Total revenue	**2,970**	2,884	3.0

Aeronautical income continues to benefit from record traffic growth offset by recoverable yield dilution as airlines employ cleaner and quieter aircraft as incentivised by our tariff structure. We continue to deliver strong value for passengers with average aeronautical revenue per passenger decreasing by 1% to £21.78. (2017: £22.00).

Financial review *continued*

Revenue *continued*

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Retail concessions	**323**	304	6.3
Catering	**61**	56	8.9
Other retail[1]	**128**	109	17.4
Car parking	**126**	120	5.0
Other services[2]	**78**	70	11.4
Total retail revenue	**716**	659	8.6

[1] Other retail mainly consists of Bureaux de Change, Advertising, left luggage and vending.
[2] Other services mainly includes Car rental, Fast Track services and VIP charges.

Retail revenue growth was strong across all revenue streams, with retail concession reflecting higher passenger numbers as well as our 'call-to-gate' initiative which increases passenger dwell time in the departure lounges. Retail concessions were additionally boosted by the roll out of new digital capability on the online Heathrow boutique, allowing customers to reserve and collect their shopping, with 52 brands now offering this service. Catering also benefitted from the call-to-gate initiative, and strong performance in the year was further enhanced by refurbishments in Terminals 3 and 5, as well as 'Grab & Go' offerings for passengers to take meals with them on their flights. Other retail reflects a significant increase in advertising income due mainly to improved utilisation of advertising sites. Retail revenue per passenger rose 5.8% to £8.94 (2017: £8.45).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Other regulated charges	**243**	240	1.3
Heathrow Express	**123**	127	(3.1)
Property and other	**143**	142	0.7
Total other revenue	**509**	509	0.0

Other revenue remained consistent with last year. Other regulated charges grew through more passengers resulting in more bags being processed. Heathrow Express revenue declined with the cession of Heathrow connect services.

Operating costs before depreciation and amortisation

Operating costs before depreciation and amortisation increased 0.5% to £1,130 million (2017: £1,124 million). Operating costs per passenger before depreciation and amortisation declined by 1.9% to £14.14 (2017: £14.41).

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Employment	**390**	384	1.6
Operational	**264**	252	4.8
Maintenance	**177**	177	0.0
Business rates	**122**	126	(3.2)
Utilities and Other	**177**	185	(4.3)
Operating costs before depreciation and amortisation	**1,130**	1,124	0.5

Operating cost increases were primarily driven by expansion and investment in safety, security and resilience. In the early part of the year, we spent over £5 million in ensuring operations ran with limited disruption during one of the worst winters in recent years. We also increased investment in our special assistance services, security costs to aid operational resilience and upgrading drone defence capabilities.

On a per passenger basis, costs have declined through cost efficiencies in people-related areas and a decline in Business Rates, offsetting increased pension charges including a one-off Guaranteed Minimum Payment equalisation of past service costs, and higher staff numbers to manage service and resilience while passenger numbers continue to increase.

Operating profit before certain re-measurements

In the year ended 31 December 2018, *the Group recorded an operating profit before certain re-measurements of* £1,088 million (2017: £1,062 million). Adjusted EBITDA increased 4.5% to £1,840 million (2017: £1,760 million), resulting in an Adjusted EBITDA margin of 61.9% (2017: 61.0%). Depreciation and amortisation increased to £752 million (2017: £698 million).

FGP Topco Limited

Strategic report *continued*

Financial review *continued*

Operating profit before certain re-measurements *continued*

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Adjusted EBITDA	**1,840**	1,760	4.5
Depreciation and amortisation	**(752)**	(698)	7.7
Operating profit before certain re-measurements	**1,088**	1,062	2.4

Taxation

The tax charge for the period, before certain re-measurements, was £70 million (2017: £52 million) resulting in an effective tax rate of 21.7% (2017: 22.5%), compared to the UK statutory rate of 19% (2017: 19.25%). The effective tax rate being higher than the statutory rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

The total tax charge for the year was £73 million (2017: £97 million). For the period ended 31 December 2018, the Group paid £75 million (2017: £53 million) in corporation tax.

Summary cash flow

In the year ended 31 December 2018 there was an increase of £97 million in cash and cash equivalents, compared with an increase of £236 million in 2017.

At 31 December 2018, the Group had £772 million (2017: £567 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents comprised £652 million (2017: £555 million).

Cash generated from operations

In the year ended 31 December 2018, cash generated from operations increased 2.8% to £1,787 million (2017: £1,737 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Adjusted EBITDA	**1,840**	1,760
Increase in receivables and inventories[1]	**(53)**	(9)
Increase in payables	**15**	15
Decrease in provisions	**-**	(7)
Difference between pension charge and cash contributions	**(15)**	(22)
Cash generated from operating activities of continuing operations	**1,787**	1,737

[1] Excludes movement in group deposits.

Recent financing activity

We have raised close to £2.3 billion of debt financing globally in 2018, further strengthening our liquidity position and providing additional duration and diversification to our £14.8 billion debt portfolio. Of the £2.3 billion of debt financing raised, just over £1,124 million was in Class A debt excluding extensions to existing facilities, £381 million in Class B debt and £786 million of new debt at Heathrow Finance.

Class A financing activity included:

a) a £145 million 18-year Class A US private placement and a £55 million US Private Placement due in 2043,
b) a C$400 million 10-year public bond and a second C$400 million 12-year bond issuance (the first issuance by a UK based company with a maturity date beyond 10 years in the Canadian market),
c) a £160 million 40-year Class A inflation-linked bond,
d) a A$175 million 10-year Class A bond (our first issuance in the Australian market),
e) a £200 million 10-year Class A term loan facility with Export Development Canada ('EDC'), the Canadian Export Credit Agency with a 12 month availability period,
f) an amendment to an existing £418 million term loan facility to extend its maturity from March 2020 to October 2021,
g) and restructuring of the £600 million liquidity facility to a 5-year rolling facility.

Financial review *continued*
Recent financing activity *continued*
Class B financing activity included:

a) a £255 million in private placements which mature between 2036 and 2041, and
b) a dual-tranche £126 million inflation-linked bond with maturities of 15 year and 18 year which will fund in March 2020

Finally, financing activity at Heathrow Finance included:

a) a £300 million 5.5-year bond, and
b) £486 million in loan facilities which will be drawn between 2018 and 2020

Subsequent to the year-end, we also issued an irrevocable redemption notice for our 2019 Heathrow Finance bond on 28 January 2019.

Financing position

Net debt and liquidity
At 31 December 2018, the Group's nominal net debt was £14,012 million (2017: £13,656 million). It comprised £12,585 million in bonds, £1,697 million in other term debt and £488 million in index-linked derivative accretion offset by £758 million in cash.

The average cost of the Group's nominal gross debt at 31 December 2018 was 3.74% (2017: 3.96%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, the average cost of debt for the Group's debt portfolio at 31 December 2018 was 5.30% (2016: 5.62%).

The reduction in the average cost of debt since the end of 2017 is mainly due to:
a) the replacement in 2018 of relatively high cost maturing legacy debt with newer lower cost debt; and
b) recent moves in inflation with the retail price index ('RPI') inflation falling from a high of 3.9% in September 2017 to 3.4% in June 2018.

The average life of the Group's gross debt as at 31 December 2018 was 11.1 years (2017: 10.9 years).

Nominal debt excludes any restricted cash. It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

The accounting value of the Group's net debt was £13,811 million at 31 December 2018 (2017: £13,661 million). This includes £758 million in cash and cash equivalents and term deposits as reflected in the Statement of financial position, and excludes accrued interest.

We have sufficient liquidity to meet its forecast needs in full until March 2021. This includes forecast capital investment (including expected investment over the period related to potential expansion), debt service costs, debt maturities and distributions. This liquidity position takes into account £2.9 billion in undrawn loan facilities and term debt as well as cash resources at 31 December 2018 together with expected operating cash flow over the period.

Net finance costs and net interest paid
In the year ended 31 December 2018, the Group's net finance costs before certain re-measurements from operations were £766 million (2017: £831 million) and net interest paid was £531 million (2017: £556 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below;

Year ended 31 December	**Year ended 31 December 2018 £m**	Year ended 31 December 2017 £m
Net finance costs before certain re-measurements	**766**	831
Amortisation of financing fees and other items	**(9)**	(15)
Borrowing costs capitalised	**50**	46
Underlying net finance costs	**807**	862
Non-cash accretion on index-linked instruments	**(254)**	(270)
Other movements	**(22)**	(36)
Net interest paid	**531**	556

Underlying net finance costs were £807 million (2017: £862 million) after adjusting for capitalised borrowing costs of £50 million (2017: £46 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £9 million (2017: £15 million).

Net interest paid is lower than underlying net finance costs primarily due to non-cash accretion on index-linked instruments.

FGP Topco Limited

Strategic report *continued*

Certain re-measurements include a £15 million fair value gain on financial instruments (2017: £203 million) driven mainly by an increase in long term Libor interest rate expectations.

Financial ratios
The Group continues to operate comfortably within required financial ratios. Gearing ratios under the Group's financing agreements are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB').

At 31 December 2018, Heathrow's RAB was £16,200 million (2017: £15,786 million).

At 31 December 2018, the Group's senior (Class A) and junior (Class B) gearing ratios were 68.2% and 76.6% respectively (2017: 67.3% and 78.4% respectively) compared with trigger levels of 72.5% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 86.3% (2017: 86.6%) and ADI Finance 2's gearing ratio was 86.5% (2017: 86.5%).

Pension scheme
Heathrow operates a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 31 December 2018, the defined benefit pension scheme as measured under IAS 19 was funded at 100.7% (31 December 2017: 97.1%). This translated into a surplus of £28 million (31 December 2017: £124 million deficit). The £152 million increase in surplus in the year is primarily due to net actuarial gains of £141 million, attributable to an increase in the net discount rate of 0.45% over the year offset by assets having underperformed relative to the discount rate. In 2018, Heathrow contributed £48 million (31 December 2017: £50 million) into the defined benefit pension scheme including £23 million (31 December 2017: £23 million) in deficit repair contributions. Management believes that the scheme has no significant plan specific or concentration risks.

Outlook
The outlook for Adjusted EBITDA performance in 2019 remains consistent with the forecast set out in the Investor Report published on 20 December 2018. We also forecast to maintain comfortable covenant headroom.

2019 will see significant progress on our expansion plans including the recent launch of a consultation on airspace change in January and the launch of the formal statutory consultation on our expansion masterplan in June.

Key management changes
Chris Garton joined the company as Chief Operating Officer ('COO') in April 2018. He held a similar position for nine years at Dubai Airport until late 2016. He was most recently Director of Asset Management at Associated British Ports. During his career, Chris has also held a number of roles in engineering and change management at Gatwick Airport, Ineos and ICI. Mr Garton replaced Mr Derek Provan, who had been interim COO since October 2017.

FGP Topco Limited

Strategic report *continued*

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 Board Committees of Heathrow Airport Holdings Limited are applied equally to this Company.

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

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

Board Committees
Audit Committee
The Audit Committee members include a chairman appointed by the Board of Directors and three shareholder Non-Executive Directors, who also attend the Board. Together they have appropriate competence in accounting and auditing.

Olivier Fortin (Chair)	Non-Executive Director
Jorge Gil	Non-Executive Director
Akbar Al Baker	Non-Executive Director
Ernesto Lopez	Non-Executive Director

The Audit Committee is a sub-committee of the Board and its responsibilities include:
- considering the appointment of the external auditor, taking into account relevant ethical guidance and assessing the independence of the external auditor ensuring that key audit personnel are rotated at appropriate intervals (including overseeing the process for selecting the external auditor and making recommendations to the Board),
- recommending the audit fee to the Board for approval and pre-approving any fees in respect of non-audit services provided by the external auditor and ensuring that the provision of non-audit services does not impair the external auditor's independence or objectivity,
- discussing with the external auditor the nature and the scope of the audit and reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements,
- reviewing 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,
- reviewing Internal Audit reports to the Audit Committee on the effectiveness of the Heathrow Airport Holdings Group's systems for internal control, financial reporting and risk management,
- reviewing the external auditor's management letter and management's responses,
- considering management's response to any major external or internal Audit recommendations,
- approving the appointment and dismissal of the Director of Internal Audit, Risk and Assurance,
- reviewing Heathrow's procedures for handling allegations from whistle-blowers,
- reviewing the ethics policy and monitoring its application throughout the business, considering any ethical issues which arise as a result of audit findings,
- overseeing all press releases relating to external financial results,
- reviewing Heathrow's tax policy and insurance strategy and arrangements,
- reviewing the results of the Data Protection Officer's data privacy compliance monitoring programme and ensuring that the Data Protection Office is adequately resourced to carry out its tasks,
- considering the adequacy of management's response to any major data privacy non-compliance findings as a result of monitoring activities,
- ensuring that the accounts are fair, balanced and understandable, and
- considering any other topics, as defined by the Board.

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.

Paul Deighton (Chair)	Chairman of the Board
Jorge Gil	Non-Executive Director
Akbar Al-Baker	Non-Executive Director
Stuart Baldwin	Non-Executive Director
Mike Powell	Non-Executive Director
Rachel Lomax	Non-Executive Director

Leadership and governance *continued*
Board Committees *continued*
Nomination Committee *continued*
The Nomination Committee is a sub-committee of the Board and its responsibilities include:
- identifying and recommending for the consideration of the Board all new appointments of independent Non-Executive directors; and
- ensuring a formal, rigorous and transparent procedure is followed for the appointment of new independent Non-Executive directors to the Board.

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

Jorge Gil (Chair)	Non-Executive Director
Ernesto Lopez	Non-Executive Director
Stuart Baldwin	Non-Executive Director
Ahmed Al-Hammadi	Non-Executive Director
Rachel Lomax	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 payments 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.

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

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

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

- 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,
- the creation of, or the granting of any permission to create, any mortgage, charge, encumbrance or other security interest on any uncalled capital or on any asset, in each case in excess of certain financial thresholds,
- any material change, amendment or variation to any of the financing arrangements of any member of the group or any request for any waiver thereunder or any entry into any new loan or loan facility, in each case in excess of certain financial thresholds,
- the entry into any new Non-Investment Grade Debt facility, and
- the bi-annual publication of investor reports in respect of Heathrow (SP) Limited and Heathrow Finance plc, pursuant to the requirements of the Common Terms Agreement and the Heathrow Finance financing arrangements.

Leadership and governance *continued*
Board Committees *continued*

Executive Committee
The Executive Committee consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Information Officer, the Chief of Staff and Group General Counsel, the Chief People Officer, Expansion Director, Chief Commercial Officer and Chief Strategy Officer.

The Executive Committee is the management committee of the Chief Executive and is responsible for, among other things, developing, reviewing and refreshing medium and long term Group business strategies, policies and development plans for Board approval, agreeing short-term tactics and action plans to ensure their delivery and reviewing the principal risks and the risk management framework.

Executive Risk Committee
The Risk Committee is chaired by the Chief of Staff and Group General Counsel and consists of the Chief Financial Officer, the Chief Operating Officer, the Expansion Director and the Chief Strategy Officer. It is responsible for reviewing the effectiveness of the risk management strategy and framework and for reviewing the principal risks. The Risk Committee is a sub-committee of the Executive Committee.

Sustainability and Operational Risk Committee
The Sustainability and Operational Risk Committee (formerly the Responsible Heathrow 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.

David Begg (Chair)	Non-Executive Director
John Holland-Kaye	Chief Executive Officer
Jorge Gil	Non-Executive Director
Olivier Fortin	Non-Executive Director
Akbar Al-Baker	Non-Executive Director

The Sustainability and Operational Risk Committee is a sub-committee of the Board and its responsibilities include:
- reviewing Heathrow's policies, conduct, performance and risk management approach against sustainability goals and operational activities;
- reviewing and challenging the performance and conduct of the Group relating to operational risks and delivery of sustainability 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 Sustainability and operational risk assurance strategies and plans, the execution and results of such plans, and relevant communications.

Internal controls and risk management

Internal controls and risk management are key elements of the Group's corporate operations. Risk is centrally managed within the Group as part of Corporate Services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team. The Corporate risk management function, sets the strategy for risk management to provide the necessary framework to ensure that key risks are managed and embeds a sustainable risk management culture that views the execution of risk management processes and practices across Heathrow as a key enabler to Heathrow achieving its business objectives.

Internal controls

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

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

- a group-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- Audit Committee 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 and estimates;
  - key financial statement risk areas as reported further below in the report;
- independent review of controls by the Internal Audit function, reporting to the AC; and
- a confidential whistleblowing process.

Risk management

Our aim is to gain a deep understanding of the principal risks we face at all levels of the business and to focus management attention on effective mitigation of these risks as well as a review of over-the-horizon emerging risks which may impact the business and strategy of Heathrow.

We continue to roll out a risk improvement plan which is focussed on improving accountability for end-to-end risk management at all levels and drive improvements in our risk culture. The risk improvement plan covers all the key elements of an effective risk management framework including risk leadership, informed risk decision making, competency and risk skills, governance including timeliness and transparency of risk information and clarity of accountability for managing risks. We assess and monitor our risk maturity across all key areas and drive improvements where required.

Principal risks

Our principal risks are aligned to our 4 strategic priorities as follows:

- 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;
- to give passengers the best airport service in the world we'll work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience;
- to secure future investment we will beat the Q6 business plan and deliver a competitive return to our shareholders by growing our revenue, reducing costs and delivering investments more efficiently; and
- to grow and operate our airport sustainably, now and in the future.

The principal risks identified by the Executive Committee are:

Business resilience

Business resilience risks can relate to Heathrow's assets, infrastructure, human or electronic processes or systems, the failure of which, by accident or deliberate act, could result in prolonged periods of interruption to critical services/operations and passenger experience. 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.

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Business resilience *continued*
Where possible the Group seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption and passenger inconvenience working as necessary with those parties who have direct contractual responsibility. Through a series of programmes the Group seeks to keep a competent, flexible and motivated workforce that can respond to a changing business and operating environment. By driving engagement in its people the Group will achieve its goals and give excellent passenger service, avoid safety and security incidents, protect resilience and deliver successful change.

People
Heathrow employs around 6,700 colleagues and, in a complex business such as Heathrow's, there are risks associated with recruiting, screening, motivating, developing and training employees on a large scale, as well as rewarding appropriately and retaining critical talent and ensuring succession plans are in place.

Heathrow has a transparent recruitment process and is committed to recruiting diverse talented individuals from all sectors of the community. Heathrow has committed to reflecting local diversity at all levels in the company by 2025. At all stages of the recruitment and selection process, interviewing and selection will always be carried out without regard to gender, sexual orientation, disability, marital status, colour, race, ethnic origins, religion or religious belief or age. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty which is intrinsic to the role, having taken into account any reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure an applicant is not disadvantaged due to his/her disability. All successful external candidates are subject to a criminal record check and the appropriate security clearance as required by the role.

Heathrow has strategies and policies in place to engage and motivate its colleagues so they are excited and challenged by their work environment, accountable and compliant with internal governance, policies and procedures. Heathrow provides great career opportunities, development and training, retaining talent and knowledge and preventing single points of failure.

Anti-corruption and anti-bribery matters
Heathrow takes a zero-tolerance approach to bribery and corruption and is committed to conducting its business in an honest and ethical manner, in compliance with the Bribery Act 2010 (the "Bribery Act") and applicable anti-bribery and anti-corruption laws. Breach of anti-bribery provisions by Heathrow employees, paid or voluntary agents, consultants or suppliers could result in Heathrow breaching the Bribery Act by failing to prevent an act of bribery being committed. If Heathrow is found guilty of such an offence, Heathrow could face an unlimited fine, exclusion from tendering for public companies, as well as significant reputational damage. As such, Heathrow embeds and maintains robust Anti-Bribery, Gifts & Hospitality Policy and Guidance (the "Anti-Bribery Policy") and other effective systems and controls to prevent bribery and corruption at Heathrow. All employees and third parties associated with Heathrow are required to conduct themselves according to the standards set out in the Anti-Bribery Policy. Any breach of the Anti-Bribery Policy will result in disciplinary action, and, if appropriate, in instant dismissal and referral to the relevant law enforcement authorities. In addition, our Whistleblowing Policy encourages individuals to report any wrong-doing which extends to bribery and corruption matters. All whistleblowing reports are treated in the strictest confidence and are investigated fully with appropriate actions taken.

Corporate social responsibility
Heathrow 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. It may restrict opportunities to grow and threaten Heathrow's social license to operate if local communities do not believe the airport is managed responsibly or that its economic benefits are optimised without prioritising profits over the long-term interests of local communities.

Environmental risk has the potential to impact negatively upon Heathrow's reputation and jeopardise its licence to operate and to grow.

The Group undertakes procurement responsibly and encourages trade and employment opportunities for local communities. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established.

Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. The Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Stakeholders
Poor interactions and relationships with key stakeholders including partners, suppliers and airlines could negatively impact passenger experience, airport operations, financial performance and Heathrow's reputation.

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.

Legal, regulation and compliance
Operations at Heathrow airport are currently subject to economic regulatory review by the CAA normally every five years. Its principal risks relate to changes in economic regulations, non-compliance with these and other regulations, licence conditions, financing covenants, contractual requirements and penalties for failing to comply with competition and relevant EU law. Failure to comply with laws and regulations can have far reaching consequences, including loss of licence, penalties, claims and litigation, reputational damage and loss of stakeholder confidence.

The risk of an adverse outcome from economic regulatory 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. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of Heathrow breaching laws, regulations and contractual requirements.

Health and safety
Heathrow has a statutory and moral responsibility to ensure that it safeguards the welfare and safety of its people, business partners and the public who may be affected by its activities. Heathrow recognises that a failure to exercise this responsibility effectively also risks operational disruption, inconvenience to passengers and long-term damage to its reputation.

Heathrow'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 airport's business. Heathrow 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 that controls around health and safety risks remain effective and continuous improvement is encouraged.

Security
Heathrow is responsible for ensuring that its assets, infrastructure, human and electronic systems and processes meet the minimum statutory requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers. It also needs to ensure that its assets, infrastructure, human and electronic systems are protected from theft, damage or intrusion.

Security risks, including cyber security, terrorism risks and information security are mitigated by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading edge security technology. Heathrow 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.

Strategic direction and management of change
Heathrow airport is operating its runways at close to full capacity and failure to secure the necessary Development Consent Order, following a robust consultation process, for the third runway, for which Heathrow is the preferred choice of the UK Government, 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 provides input to the on-going relevance of the Group's strategy. The Group also needs to influence the pace and direction of changes to regulations, legislation, government policy, aviation and the wider economy and ensure that it does not lose airlines' support for expansion.

Heathrow recognises that failure to control key development costs and delivery could damage its financial standing and reputation. There are risks that projects fail to deliver to the agreed quality, specification, time and budget as well as risks that the benefits of change are not realised, return on investments not realised and transformation not delivered.

Internal controls and risk management *continued*

Risk management *continued*

Principal risks *continued*

Strategic direction and management of change *continued*

The planning process for all major national infrastructure projects in the UK sets out a number of steps that the Group needs to go through to obtain development consent to expand Heathrow: a National Policy Statement, a Development Consent Order and public consultation before a final decision is taken by the UK Government for the third runway. The Group's planning process is well underway and it is building an organisation and expertise to ensure this process runs smoothly. Heathrow will undertake extensive consultations with community groups and authorities at a local level and is an active participant in government consultations and other advisory groups.

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 Heathrow. Since it is not possible to identify the timing or period of such an effect, the Group carries out evaluations through a series of scenario planning exercises. Risks associated with the uncertainties arising from the current Brexit negotiations are monitored and managed as far as possible including putting in place contingency plans.

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 ongoing requirements are articulated and understood.

Heathrow mitigates project risks 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.

Brexit

We continue to monitor progress made by the UK Parliament as it debates how to progress towards Brexit. While the continued delays in reaching an agreement increase uncertainty for UK businesses, the aviation industry remains well positioned as a result of the EU aviation contingency plans.

Heathrow has established a cross-functional Brexit team, reporting to the Executive committee and Board, which has implemented a structured approach to the identification and management of all risks related to Brexit. Heathrow has focused on the management of risks associated with the outcome of the Withdrawal Agreement negotiations and government votes.

Identified risks specific to Heathrow include impacts on Airline operations, disruption to our passengers and immigration, cargo operations, our supply chain, and our people. We have made preparations to ensure the continued safe and secure operation for passengers with a plan jointly created with stakeholders to deliver a predictable and appropriate passenger experience and which minimises the pre- and post-Brexit impacts. Specific activities include:

- close collaboration in contingency planning across the aviation sector, agencies and Government,
- advancing proposals for automating immigration process for specific nations,
- funding settled status for our non-UK EU national workers,
- commitment to the prompt payment code for our supply chain,
- advanced procurement of key operational stores,
- continued commitment and assurance on major capital programmes to our supply chain,
- contingency fallback plans for our key suppliers, and
- reviewed operational contingency and readiness plans

In parallel, the UK Government is continuing work to implement replacement Air Service Agreements for the 17 countries which are currently covered by the UK's membership of the EU. If the outcome of the negotiations is a 'no deal' exit without a withdrawal agreement then, subject to a reciprocal offer by the UK, UK airlines will be able to continue to fly between the EU and UK. In addition, UK citizens will be permitted to travel visa free in the EU for up to 90 days and the EU will continue to recognise the UK for 'EU One Stop Aviation Security Regime'.

Whilst these contingency arrangements are only intended to be in place until the end of 2019, if enacted, we anticipate that there will be very little, if any, impact on flights in the event that MPs vote against the Withdrawal Agreement. The Government has already indicated that a number of these ASA's, including the agreement with the US, have been agreed and the remaining agreements will be put in place well in advance of the termination of the EU contingency plans or the UK leaving the EU. These new ASA's, combined with the existing 111 bilateral agreements with international destinations, will ensure that the vast majority of traffic at Heathrow is unaffected by the outcome of the negotiations on the transition agreement.

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Brexit *continued*
In the more extreme scenario, a portion of Heathrow traffic (flying between UK and EU) may stop flying for a short period of time and there may be capacity reductions for an extended period. We have conducted stress testing in this scenario, including impacts on costs and revenue, and financing our capital investment program and this showed we have significant resilience to this outcome. This analysis has been presented to the Board.

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

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

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

(a) Interest rates
The Group maintains a mix of fixed and floating rate debt. As at 31 December 2018, fixed rate debt after hedging with derivatives represented 89.3% Group's total external nominal debt.

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

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

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

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

The Group has positive cash flows after capital expenditure and interest and expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2019. As at 31 December 2018, the Group had cash and cash equivalents and term deposits of £758 million, undrawn headroom under revolving credit facilities of £1,150 million, committed debt financing to be drawn after 31 December 2018 of £1,053 million and undrawn headroom under liquidity facilities of £595 million.

(e) Counterparty credit
The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument. The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short and long-term credit ratings. Investment activity is reviewed on a regular basis and generally no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2 (S&P)/F1 (Fitch). The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+ (S&P)/BBB+ (Fitch).

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Financial statements risk
The Audit Committee reviewed critical accounting judgements and key sources of estimation uncertainty outlined in the "Accounting policies" section of the financial statements. Based on the discussion with the management, work and recommendation of the Group finance function and input from external auditor, the Committee considered that the most significant financial statements risk matters are as follows:

(i) Classification of costs between operating expenditure and capital expenditure

The Group has a substantial Q6 capital programme which has been agreed with the regulator (the Civil Aviation Authority) and therefore incurs significant expenditure investing in assets to improve operational performance, airport resilience and passenger experience. Since October 2016, the Group has also begun investing in Expansion.

Only those costs which satisfy the requirements of IAS16 *'Property, Plant and Equipment'* should be capitalised, which in some cases requires management judgement. Controls and processes related to capital expenditure are directed by the Fixed Asset Steering Group (chaired by the CFO), which reports regularly to the Audit Committee through formal Committee papers and provides them with the opportunity to scrutinise and challenge the judgement made.

The Group has a Property, plant and equipment ("PP&E") Accounting Policy, which outlines the requirements for costs to be eligible for capitalisation and a separate Capitalised Interest Policy which applies to interest costs incurred whilst a project is under construction. Both the PP&E Accounting Policy and the Capitalised Interest Policy are formally published on and communicated to management and employees via the Group's intranet site. These policies are applied and their application is monitored on a regular basis to ensure that all costs eligible for capitalisation and interest costs incurred whilst a project is under construction are correctly capitalised. The PP&E Accounting Policy has been updated to ensure clarity around the treatment of costs relating to Expansion.

Each capital project follows a defined project governance process. This includes a Financial Assurance Review by the Heathrow Finance department which concludes on the appropriate accounting treatment in accordance with the Group's capitalisation policy for the expenditure to be incurred on the project. The project governance process also includes each project being reviewed and approved by the relevant Governance Groups, including the Heathrow Investment Committee for significant projects.

The spend on the project is reviewed and approved by appropriate delegated financial authorities ensuring the correct classification of cost. The Programme Management Office (PMO) is responsible for tracking and monitoring spend against the project cost plan, and when the project is completed a final review of costs incurred is carried out by Finance before transferring the capital cost of the project to the Fixed Asset Register.

Heathrow is currently in the process of obtaining a Development Consent Order (DCO) for Expansion. Particular emphasis is being placed on ensuring that capitalised costs will deliver future economic benefit and are directly attributable to obtaining DCO, through regular reviews and senior leadership involvement. The CAA and independent consultants have also been engaged in reviewing planned and actual capitalised costs (*ex ante* and *ex post)* to ensure that they are efficient, incremental, and directly attributable to obtaining DCO. During the year ended 31 December 2018, the Group recorded £127 million of such expansion related costs in assets in the course of construction (2017: £83 million)

(ii) Hedge accounting

The Group designates certain derivative financial instruments as cash flow hedges where they hedge exposure to variability in cash flows of existing liability or forecast transaction. Significant changes in the expected quantum of future Sterling refinancing may lead to insufficient Sterling borrowings to support components of the cash flow hedge reserve, requiring the recycling of the cash flow hedge reserves through income statement.

Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be timing differences, credit risk adjustments and currency basis.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for cash flow hedge accounting, any cumulative gain or loss in equity remains in equity and is recycled on a straight line basis as the forecast transaction is recognised in the income statement. When or if a forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is immediately recycled through the income statement.

Internal controls and risk management *continued*
Risk management *continued*
Principal risks *continued*
Financial statements risk *continued*
The Group documents as follows:

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

On a quarterly basis, management:

- compares existing and historic hedging arrangements against expectations of future refinancing of Sterling denominated borrowings;
- reviews floating Sterling debt supporting the existing Cash Flow Hedge Reserve ('CFHR') to ensure the debt is greater than swap notional, which supports the existing designations.

On a quarterly basis, management provides updates to the Audit Committee on CFHR and its assumptions.

(iii) Fair value of derivative financial instruments

The Group holds a substantial derivative financial instruments portfolio comprising interest rate swaps, cross currency swaps, and index-linked swaps which are accounted for at fair value. In determining the fair value, judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps). Due to the significance of the Group's derivative financial instruments and the related estimation uncertainty, there is a risk that derivative financial instruments are not valued based on appropriate assumptions and/or estimates.

The valuation of the Group's derivative financial instruments is determined through the application of a discounted cash flow approach and the use of inputs based on observable market data where these are available. The fair value of cross-currency, interest rate and index-linked swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The credit risk associated with the Group's derivative financial instruments is updated monthly based on current market data. The recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps) is validated quarterly with a counterparty bank.

(iv) Fair value of investment properties

The Group holds a variety of investment properties that are accounted for at fair value. In determining the fair value, judgement is required with regard to a number of valuation assumptions that include property rental growth rate, operating cost and expected yields.

Independent valuations are obtained for all investment properties. The valuations are prepared in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations are carried out having regard to comparable market evidence relevant to each specific property or class of properties.

In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) is capitalised using yields derived from market evidence. This market evidence also takes into account planned transactions and use of the property.

The report was approved and authorised by the Board and was issued on behalf of the Board.

Jorge Gil Villen
Director

26 February 2019

FGP Topco Limited

Directors' report

The directors present their Annual report and audited financial statements for the year ended 31 December 2018.

Principal activity
The principal activity of the Group is as the ultimate parent of a group of companies that owns Heathrow Airport and operates the Heathrow Express rail service.

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are contained in the Strategic report on pages 2 to 26.

Results and dividends
The profit after taxation for the financial year amounted to £381 million (2017: £486 million).

The Group's shareholders received a total of £500 million in dividends during 2018 (2017: £525 million).

The statutory results for the year are set out on page 33.

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

Ahmed Ali Al-Hammadi	Appointed 21 February 2018	
Stuart Baldwin		
Christopher Beale		
Olivier Fortin		
Jorge Gil Villen		
Michael Powell		
David Xie[1]	Appointed 26 September 2018	
Sheikh Ahmed Bin Fahad Al-Thani	Resigned 21 February 2018	
Jinhong Chen	Appointed 26 September 2018	(Alternate to David Xie)
Samuel Coxe		(Alternate to Christopher Beale)
Deven Karnik		(Alternate to Ahmed Ali Al-Hammadi)
Tom Kelly	Appointed 25 October 2018	(Alternate to Michael Powell)
Alexander Leonard	Appointed 24 May 2018	(Alternate to Stuart Baldwin)
Iñigo Meirás		(Alternate to Jorge Gil Villen)
Benjamin Bao	Resigned 26 September 2018	(Alternate to David Xie)
Paul Barr	Resigned 24 May 2018	(Alternate to Stuart Baldwin)
Robert Horsnall	Resigned 25 October 2018	(Alternate to Michael Powell)
David Xie[1]	Resigned 26 September 2018	(Alternate to Benjamin Bao)

[1] David Xie resigned as alternate director to Benjamin Bao on 26 September 2018 and was appointed director on the same date

Company Secretary
Pursuant to Section 270 of the Companies Act 2006, a private company registered within England or Wales is not required to have a Company Secretary. The Company has availed itself of this exemption.

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

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

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

Colleagues with disabilities have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Group has further procedures to ensure that disabled colleagues are fairly treated in line with the Equality Act (2010). Where employees have become disabled during the course of employment, the Group endeavours to ensure continuing employment in line with the Reasonable Adjustments Policy as agreed between the Group and the recognised Trade Unions (Unite, PCS and Prospect).

FGP Topco Limited

Directors' report *continued*

Employment policies *continued*

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 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. A Share In Success saver scheme in which eligible employees can save money which the company matches as a contribution in line with business performance has been in place since 2015. In addition, some senior management participate in long-term incentive plans which also rewards based on group performance.

The Group has no direct employees. The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the Heathrow Airport Holdings group. The Group directly incurs the employment cost of services provided to the Group as stated in the Accounting policies on page 38.

Donations

The Group's charitable donations for the year amounted to £1 million (2017: £2 million). The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows.

Beneficiaries	Contribution	Summary of activities
LHR Airport Communities Trust	£725,000	LHR Airport Communities Trust is an independently run grant-making charity which operates the Heathrow Community Fund (HCF). As well as input funding from Heathrow, the Trust receives noise fines levied on airlines when they break noise regulations and money generated through fundraising by Heathrow colleagues and others. The Trust's grant programme supports significant and positive improvement in quality of life for communities near the airport. It also supports colleague volunteering and fundraising to improve their community or for a cause they believe in.
Duke of Edinburgh's Award	£200,000	The Duke of Edinburgh's Award (DofE) programme of volunteering and challenges transforms young people's confidence, skills and wellbeing. Our partnership gives colleagues the chance to unlock their potential. They can pick from a programme of DofE-themed activities designed to build self-belief and team-working abilities. This includes taking on challenges and offering work experience days for local young people. DofE receives a combination of input funding from Heathrow and money generated through fundraising by Heathrow colleagues and others.
Other	£30,000	In addition to our official charity partnerships, Heathrow also occasionally gives discretionary input funding on an ad-hoc basis and we facilitate our colleagues and passengers to support national charitable campaigns.

In 2018 Heathrow launched a new partnership with CARE International UK, specifically to enable Heathrow passengers and colleagues to support entrepreneurs living in poverty around the world, through the 'Lend with care' initiative. 'Lend with care' is an online lending platform that allows you to personally give entrepreneurs much-needed access to credit and training. This money is then used to help change the lives of those living in poverty. CARE receives donations from Heathrow's passengers and money generated through fundraising by Heathrow colleagues and others.

In 2018 Heathrow and Oxfam's 5-year partnership came to an end. The aim was to promote the idea of a shared global community. This reflected Heathrow's objective of being a responsible gateway to the world and Oxfam's role in supporting the most vulnerable people in over 90 countries. Many colleagues engage with the partnership through fundraising and participation in challenge events. Oxfam received donations from Heathrow's passengers and money generated through fundraising by Heathrow colleagues and others.

Internal controls and risk management

The Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Group's internal controls and risk management policies can be found on pages 20 to 26 in the internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies

The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on pages 20 to 26 in the Internal controls and risk management section of the Strategic report.

Non-Financial Reporting Requirements
We aim to meet all disclosure and reporting requirements relating to Non-Financial matters both with the Annual Report and Accounts and elsewhere in published information on the Heathrow.com website. The matters below are referenced to where further information can be found within this report.

• Environmental Matters	Sustainable Growth	Page 9
	Business Resilience	Page 20
	Corporate Social Responsibility	Page 21
• Colleagues	Colleague Policy	Page 21,27
	Health and Safety	Page 22
• Anti-corruption and Bribery Policy		Page 21
• Social Matters	Charitable Donations	Page 28
• Security of the Airport and Passengers		Page 22
• Leadership and Governance		Page 17
• Description of Principal Risks	Business Risks	Page 20
	Financial Management Risks	Page 24
• Description of the Heathrow Business Model		Page 2
• Non-financial performance indicators		Page 6
• Research and development and innovation		Page 9

Subsequent events
Subsequent events are disclosed in note 31.

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 them in defending any proceedings in which judgement is given in their favour, or in which they 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. This indemnity also applies to the directors who are directors of other companies within the group.

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

After a comprehensive tender process the board have appointed Price Waterhouse Coopers (PwC) as auditor of the group for the financial year ending 31 December 2020.

Statement of disclosure of information to the Auditor

Each of the persons who is a director at the date of approval of this Annual report confirms that:
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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.

The report was approved and authorised by the Board and was issued on behalf of the Board.

Jorge Gil Villen
Director
26 February 2019

Company registration number: 05723961

FGP Topco 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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 the parent company financial statements, the directors are required to:

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

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

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

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

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

The report was approved and authorised by the board and was issued on behalf of the Board.

Jorge Gil Villen
Director

26 February 2019

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of FGP Topco Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;
- the group and parent company accounting policies;
- the group and parent company significant accounting judgements and estimates; and
- the related notes to the consolidated financial statements 1 to 31 and to the parent company financial statements 1 to 12.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

Simon Cleveland

Simon Cleveland FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
26th February 2019

FGP Topco Limited

Consolidated income statement for the year ended 31 December 2018

		Year ended 31 December 2018			Year ended 31 December 2017		
	Note	**Before certain re-measurements £m**	**Certain re-measurements[1] £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements[1] £m	Total £m
Revenue	1	**2,970**	**-**	**2,970**	2,884	-	2,884
Operating costs	2	**(1,882)**	**-**	**(1,882)**	(1,822)	-	(1,822)
Other operating items							
Fair value gain on investment properties	7	**-**	**117**	**117**	-	149	149
Operating profit	1	**1,088**	**117**	**1,205**	1,062	149	1,211
Financing							
Finance income[3]	3	**4**	**-**	**4**	5	-	5
Finance costs[3]	3	**(770)**	**15**	**(755)**	(836)	203	(633)
		(766)	**15**	**(751)**	(831)	203	(628)
Profit before tax		**322**	**132**	**454**	231	352	583
Tax charge		**(70)**	**(3)**	**(73)**	(52)	(45)	(97)
Taxation charge	4	**(70)**	**(3)**	**(73)**	(52)	(45)	(97)
Profit for the year		**252**	**129**	**381**	179	307	486

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

[2] Attributable to owners of the parent.

[3] Prior year finance income and finance costs have been restated by (£196) million and £196 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

FGP Topco Limited

Consolidated statement of comprehensive income for the year ended 31 December 2018

	Note	**Year ended 31 December 2018 £m**	Year ended 31 December 2017 £m
Profit for the year		**381**	486
Items that will not be subsequently reclassified to the consolidated income statement			
Actuarial loss on pensions			
(Loss)/gain on plan assets[1]	*18*	**(192)**	62
Decrease/(increase) in scheme liabilities[1]	*18*	**310**	(116)
Tax relating to indexation of operational land	*17,24,25*	**-**	2
Items that may be subsequently reclassified to the consolidated income statement			
Equity investments			
Loss taken to equity	*24*	**-**	(1)
Cash flow hedges			
Losses taken to equity[1]	*24*	**(174)**	(116)
Transfer to finance costs[1]	*24*	**229**	144
Other comprehensive profit/(loss) for the year net of tax		**173**	(25)
Total comprehensive income for the year		**554**	461
Attributable to owners of the parent		**554**	461

[1] Items in the statement above are disclosed net of tax. The tax relating to each component of other comprehensive income is disclosed in Note 24.

FGP Topco Limited

Consolidated statement of financial position as at 31 December 2018

	Note	31 December 2018 £m	31 December 2017 £m
Assets			
Non-current assets			
Property, plant and equipment	6	11,609	11,516
Investment properties	7	2,472	2,360
Intangible assets	8	2,936	2,943
Retirement benefit surplus	18	28	-
Equity investments	9	30	30
Derivative financial instruments	15	543	444
Trade and other receivables	11	20	19
		17,638	17,302
Current assets			
Inventories	10	13	11
Trade and other receivables	11	299	254
Derivative financial instruments	15	-	170
Term deposits	13	120	12
Restricted cash	12	14	14
Cash and cash equivalents	13	638	541
		1,084	1,002
Total assets		18,722	18,304
Liabilities			
Non-current liabilities			
Borrowings	14	(14,060)	(13,116)
Derivative financial instruments	15	(1,523)	(1,459)
Deferred income tax liabilities	17	(876)	(858)
Retirement benefit obligation	18	(32)	(158)
Provisions	19	(2)	(9)
Trade and other payables	20	(8)	(9)
		(16,501)	(15,609)
Current liabilities			
Borrowings	14	(742)	(1,358)
Derivative financial instruments	15	(39)	(7)
Provisions	19	(13)	(6)
Current income tax liabilities		(43)	(26)
Trade and other payables	20	(411)	(378)
		(1,248)	(1,779)
Total liabilities		(17,749)	(17,382)
Net assets		973	922
Equity			
Capital and reserves			
Share capital	21	13	13
Share premium	22	1,411	1,411
Other reserves	23	(262)	(317)
Retained earnings	25	(189)	(185)
Total shareholders' equity		973	922

These financial statements of FGP Topco Limited (Company registration number: 05723961) were approved by the Board of Directors and authorised for issue on 26 February 2019. They were signed on its behalf by:

Jorge Gil Villen
Director

Olivier Fortin
Director

FGP Topco Limited

Consolidated statement of changes in equity for the year ended 31 December 2018

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
		Attributable to owners of the Company				
1 January 2017		13	1,411	(344)	(97)	983
Comprehensive income:						
Profit for the year					486	486
Other comprehensive income:						
Fair value gains on:						
Cash flow hedges net of tax	*24*			28		28
Actuarial loss on pension net of tax						
Gain on plan assets	*18,24*				62	62
Increase in scheme liabilities	*18,24*				(116)	(116)
Equity investments				(1)		(1)
Tax relating to indexation of operational land	*17,24,25*				2	2
Total comprehensive loss				27	434	461
Transaction with owners:						
Dividends paid	*5,25*				(525)	(525)
Release of unpaid dividend creditor					3	3
Total transaction with owners					(522)	(522)
31 December 2017		**13**	**1,411**	**(317)**	**(185)**	922
Adjustment in respect of						
Change in accounting policy - IFRS 9					**(2)**	**(2)**
Change in accounting policy - IFRS 15					**(1)**	**(1)**
1 January 2018 (re-stated) *		**13**	**1,411**	**(317)**	**(188)**	**919**
Comprehensive income:						
Profit for the year					**381**	**381**
Other comprehensive income:						
Fair value gains on:						
Cash flow hedges net of tax	*24*			**55**		**55**
Actuarial gain on pension net of tax						
Loss on plan assets	*18,24*				**(192)**	**(192)**
Decrease in scheme liabilities	*18,24*				**310**	**310**
Total comprehensive income				**55**	**499**	**554**
Transaction with owners:						
Dividends paid	*5, 25*				**(500)**	**(500)**
Total transaction with owners					**(500)**	**(500)**
31 December 2018		**13**	**1,411**	**(262)**	**(189)**	**973**

FGP Topco Limited

Consolidated statement of cash flows for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cash flows from operating activities			
Cash generated from operations	27	**1,787**	1,737
Taxation			
Corporation tax paid		**(75)**	(53)
Net cash from operating activities		**1,712**	1,684
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(769)**	(670)
Investment properties		**(4)**	(1)
Intangible assets		**(20)**	(17)
(Increase)/decrease in term deposits[1]		**(108)**	368
Interest received		**2**	7
Net cash used in investing activities		**(899)**	(313)
Cash flows from financing activities			
Dividends paid	5	**(483)**	(525)
Proceeds from issuance of bonds		**1,067**	718
Repayment of bonds		**(910)**	(1,122)
Repayment of ADI Finance 2 Limited facility		**-**	(310)
Drawdown of ADI Finance 2 Limited facility		**75**	-
Drawdown of subordinated facilities		**65**	200
Issuance of term note		**245**	518
Repayment of other facilities and other items		**(132)**	(41)
Settlement of accretion on index-linked swaps		**(110)**	(10)
Interest paid		**(533)**	(563)
Net cash used in financing activities		**(716)**	(1,135)
Net increase in cash and cash equivalents		**97**	236
Cash and cash equivalents at beginning of year		**555**	319
Cash and cash equivalents at end of year	13	**652**	555

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

Accounting policies for the year ended 31 December 2018

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

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

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

Basis of accounting
The Group financial statements are prepared in accordance with IFRSs as issued by the IASB and as adopted by the EU and prepared under the historic cost convention, except for investment properties, financial assets, derivative financial instruments and financial liabilities that qualify as hedged items under fair value hedge accounting. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

The Group financial statements are presented in Sterling and are rounded to the nearest million pounds (£m), except when otherwise noted.

Primary financial statements format
The primary financial statements are prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2018.

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column. This column includes certain re-measurements as listed in (i) and (ii) below, which management separates from the underlying operations of the Group. Also, this column includes exceptional items as listed in (iii) and the effect on taxation of changes in tax rates in (iv) and (v) below. By isolating certain re-measurements and exceptional items, management believes the underlying results provides the reader with a more meaningful understanding of the performance of the Group, by concentrating on the matters over which it exerts influence, whilst recognising that information on these additional items is available within the financial statements, should the reader wish to refer to them.

The column 'certain re-measurements and exceptional items' in the consolidated income statement contains the following items:

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

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

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

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and its ability to access the debt markets (refer to Recent financing activities in the Financial review).

Whilst the Group is in a net current liability position, as a result of the review, and having made appropriate enquiries of management, the directors have a reasonable expectation that sufficient funds will be available to meet the Group's funding requirement for the twelve months following the date when the Statement of financial position was signed.

Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group
During the year, the Group has adopted a number of amendments to the IFRSs issued by the IASB that are mandatorily effective for accounting periods beginning on or after 1 January 2019.

Impact of initial application of IFRS 9 *Financial Instruments*
The Group has adopted IFRS 9 (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018.

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and rules for hedge accounting. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

(i) Classification and measurement of financial assets
Under IFRS 9, all the financial assets are measured at amortised cost, fair value through profit or loss or fair value through OCI on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group's financial assets include cash and cash equivalents (including short term deposits), loans to third parties, trade and other receivable, intercompany loan receivables, derivatives and other debtors. These financial assets are continued to be measured at amortised cost as they meet the condition for classification at amortised cost under IFRS 9.

Investments previously classified as available-for-sale (AFS) are now classified as equity investments presented at fair value with changes recorded through other comprehensive income.

(ii) Impairment of financial assets
The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL). It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts.

The introduction of new impairment model has an impact on Group's trade receivables and investments in money market funds and deposits measured at amortised cost. For trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component. Based on the assessment undertaken, the Group recorded an impairment loss of £1.9 million on its trade receivable on transition.

(iii) Hedge accounting
IFRS 9 contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

IFRS 9 introduces an optional treatment for cross currency swaps designated in hedge relationships, whereby the currency basis element can be bifurcated with changes in fair value recorded in other comprehensive income ("OCI"). The Group has not elected to apply this accounting treatment, but instead treated it as a source of effectiveness.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit and loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed.

The new standard introduces expanded disclosure requirements and changes in presentation. The below table shows information relating to financial assets that have been reclassified as a result of transition to IFRS 9.

Impact of initial application of IFRS 9 *Financial Instruments* continued

	Original IAS 39 Category	New IFRS 9 Category	Closing balance 31 December 2017 £m	Adoption of IFRS 9 £m	Opening balance 1 January 2018 (IFRS 9) £m
Non-current financial assets					
Investment in NATS	AFS	FVOCI	30	-	30
Derivative Instruments	FVTPL	FVTPL	444	-	444
Other receivables	Amortised cost	Amortised cost	19	-	19
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	254	(2)	252
Derivative instruments	FVTPL	FVTPL	170	-	170
Term deposits	Amortised cost	Amortised cost	12	-	12
Cash and cash equivalents	Amortised cost	Amortised cost	541	-	541
Total financial assets			**1,470**	**(2)**	**1,468**

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

	IAS 39 Carrying amount 31 December 2017	Re-classification	Re-measurement £m	IFRS 9 Carrying amount 1 January 2018 £m	Retained earnings impact (IFRS 9) £m
Fair value through profit or loss					
FVTPL in IAS 39	36	-	-	36	-
Derivative at fair value – hedge accounting applied	578	-	-	578	-
Total charge to fair value through profit and loss	614	-	-	614	-
Available for sale	30	(30)	-	-	-
Amortised cost assets	826	-	(2)	824	(2)
Equity investments	-	30	-	30	-
Total financial assets	**1,470**	**-**	**(2)**	**1,468**	**(2)**

The Group's financial assets also include other investments that were previously classified as available-for-sale ("AFS") are now classified as equity investments that satisfy the conditions for classification at fair value through other comprehensive income ("FVOCI") and hence there will be no change to the accounting for these assets.

Impact of application of IFRS 15 *Revenue from Contracts with Customers*

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) effective 1 January 2018 using the modified retrospective method of adoption. The Group elected to apply the standard to all contracts as at 1 January 2018.

The Group's accounting policies for its revenue streams are disclosed in detail below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. The opening balance transition adjustment relating to trade receivables affected by the move from IAS 18 to IFRS 15 as at 1 January 2018 is illustrated below.

	Reference	1 January 2018 £m	IFRS 15 adjustment £m	1 January 2018 under IFRS 15 £m
Assets				
Non-current assets		17,302	-	17,302
Current assets		1,002	-	1,002
Total assets		18,304	-	18,304
Liabilities				
Non-current liabilities		(15,609)	-	(15,609)
Current liabilities	*(i)(ii)*	(1,773)	(1)	(1,774)
Total liabilities		(17,382)	(1)	(17,383)
Net assets		922	(1)	921
Total shareholders' equity	*(i)(ii)*	922	(1)	921

Impact of application of IFRS 15 *Revenue from Contracts with Customers* *continued*
(i) Car Parking
It must be determined at contract inception whether the performance obligation, being the provision of a parking space for each day that the car is parked, is transferred over time or at a point in time. Due to the varying types of parking services on offer and the duration of stay in each individual case, the performance obligation is satisfied over time and not at a point in time. Control of a service refers to the ability to obtain substantially all the remaining benefits from the service and this would not occur at a point in time as cars can be parked for several days. Previously under IAS 18 revenue was recognised upon exit from a car park and this change in revenue recognition upon adoption of IFRS 15 has resulted in a restatement of £0.5 million net of deferred tax charged to retained earnings at 1 January 2018.

(ii) Rail Income
It must be determined at contract inception whether the performance obligation, being the provision of rail transport, is transferred over time or at a point in time. Each ticket, either within a carnet or the inward and outward legs on a return ticket, represents a separate performance obligation and revenue is recognised as each performance obligation is satisfied, being on the day of travel. Due to the varying types of tickets on offer and their validity from the date of sale, the performance obligation is satisfied using management assumptions as per the accounting policy. Previously, revenue was recognised when a ticket was first used and immediately when purchased at a station. This has resulted in a restatement of £0.9 million net of deferred tax charged to retained earnings at 1 January 2018.

Had the financial statements been prepared under IAS18 the impact for the year ended 31 December 2018 would be £0.1 million higher. All other revenue streams are recognised under a basis consistent with that previously reported.

The adoption of IFRS 15 did not have a material impact on OCI or the Group's cashflow.

Other amendments
The following amendments, although relevant to the Group, have no impact on the Group's results for the reasons stated:

- Amendments to IAS 40: Transfer of Investment Property. The Group has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration:* The interpretation clarifies how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

  The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. This clarification has no impact on the Group's results as the Group determines the date of transaction for advance payments in foreign currency in accordance with this clarification.

The following amendments are not applicable to the Group:
- Annual Improvement to IFRS Standards 2014 – 2016 Cycle: Amendments to IAS 12: *Investments in Associates and Joint Ventures.* The Group does not have any investment in Associates or Joint Ventures.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group
- IFRS 16 *Leases*;
- IFRS 17 *Insurance Contracts;*
- Amendment to IFRS 9: Prepayment Features with Negative Compensation;
- Amendment to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*;
- Amendment to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement;
- IFRS 19 *Consolidated Financial Statements* and IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associates or Joint Venture; and
- IFRS 23: Uncertainty over Income Tax Treatments

IFRS 16 *Leases*

General impact of application of IFRS 16 Leases
IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

The Group has chosen the simplified transition approach of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Group will not restate the comparative information in the year of adoption.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease
The Group will not make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IFRS 16 will be also applied to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting
Operating leases
IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases with exception to short term and low value leases (as allowed under IFRS 16), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £767 million, see Note 26. A preliminary assessment indicates that on application of IFRS 16 as at 1 January 2019, the Group will recognise a right-of-use asset of £344 million, a corresponding lease liability of £446 million and deferred tax assets of £17 million in respect of all these leases with a resulting net adjustment of £85 million in the retained earnings.

The Group expects the impact on the income statement is to decrease the operating expense by £53 million, to increase depreciation by £37 million and to increase interest expense by £18 million resulting in profit before tax to decrease by approximately £2 million for 2019 as a result of adopting the new rules.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities and reduce net cash used in financing activities.

***Impact on Lessee Accounting** continued*
Finance leases
The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor.

The Group does not have any Finance leases as a lessee hence there will be no impact of this change to the Group on adoption of IFRS 16.

Impact on Lessor Accounting
Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

As at 31 December 2018, the Group has non-cancellable operating leases as a lessor of £2,004 million, see note 26. Going forward, additional disclosure will be made to comply with this change.

Basis of consolidation
The Group financial statements consolidate the financial statements of FGP Topco Limited and all its subsidiaries.

Subsidiaries
Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is defined as where the Group is exposed or has rights to variable returns from its involvement with the subsidiary and the ability to affect those returns through its power over the subsidiary.

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

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

Revenue from Contracts with Customers
Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer (i.e., when the Group delivers its performance obligation under the contract) at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. There is no requirement to disclose about remaining performance obligations as all contracts have an expected duration of less than one year.

The Group recognises revenue from the following major sources:
- Aeronautical income;
- Retail services;
- Other regulated charges;
- Car Parking; and
- Rail income.

Aeronautical income
Aeronautical income includes:
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on time parked and whether aircraft are wide or narrow bodied as provided.
- Passenger charges based on the number of departing passengers on departure.
- Other charges levied for passenger and baggage operations when these services are rendered.

There are three separate performance obligations in respect of aeronautical charges, namely landing, parking and departing charges. These charges are separately identified in respect of any aircraft movement at the airport and the revenue is recognised on the day the movement takes place. In addition, there are certain other regulated charges which are referred to below.

Retail services
Retail income include concession fees from retail and commercial concessionaires at the airport are based upon reported revenue by concessionaires, taking into account contracted minimum guarantees where appropriate.

The performance obligation for this revenue stream is the provision of retail unit space to a third party for the purposes of selling or providing services to the travelling public, in return for a fee, based either on a fixed rental fee, or a concession fee based on turnover. The retailer has the right to design and control the use of that space. As such, this concept under the retail contracts are aligned to a lease in nature, and therefore retail income is treated as lease income.

Revenue from Contracts with Customers *continued*

Other Regulated Charges ('ORCs')

Revenue in relation to ORC's (including those related to Aeronautical) is derived from the recovery of certain costs incurred by the Airport. It includes:

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

The Group typically satisfies its performance obligation as the service is provided. Revenue is recognised on the day the service takes place, therefore at a point in time.

Car Parking

Car parking income is from the provision of parking services to customers, which include for Short Stay, Long Stay, Business parking and Storage. The Group considers the performance obligation is satisfied by the provision of a car park space for each day the car is parked, therefore the revenue is recognised for each day the car is parked.

Rail income

Heathrow Express derives its income from the sale of tickets to customers, which are of the following types:

- Single tickets valid on the date of travel specified on the ticket when purchased.
- Return tickets valid for 5 days from the specified date of travel on the ticket for the outward journey; and 30 days from the specified date of travel on the ticket for the return journey.
- Multiple journey ("carnet") tickets valid for up to 12 months from the date of sale.

Revenue attributable to return tickets should be allocated to each journey and recognised on the day each journey takes place. Heathrow Express is not able to track when each journey is undertaken and therefore has used sample data of historical journeys to estimate when each journey takes place.

The revenue is recognised by applying the below management assumptions to measure progress towards satisfaction of the performance obligation:

- 90% of single tickets are used in the month of sale.
- 80% of return tickets (50% outward and 30% return) are used in the month of sale.
- All multiple journey ("carnet") tickets are used within 6 months.

Contributions

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

Finance income

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

Borrowing costs

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

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

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

Property, plant and equipment

Operational assets

Terminal complexes, airfield assets, plant and equipment, rail assets and other land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Assets in the course of construction are stated at cost less any impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised (see "Borrowing Costs"

Property, plant and equipment *continued*
policy), own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Group. The Group reviews these projects on a regular basis to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

Heathrow expansion
Assets in the course of construction include qualifying costs in respect of Heathrow expansion following the Government decision in October 2016 in favour of Heathrow, and subsequent Board decision in October 2016 to apply for the Development Consent Order.

These two events were considered by management to be a trigger point for the expansion project to proceed. Management subsequently announced publicly that the Group would apply for planning permission, in the belief that it is highly probable that expansion at Heathrow will be realised. As a result, the Group has started to capitalise eligible costs as 'assets in the course of construction'.

The costs which are directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity through the Development Consent Order process are capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets. These costs include Environmental Impact Assessments, Statutory consultation, and Master plan options.

In assessing expansion costs, the Group has regard to IAS 38 (See Accounting policy – 'Internally-generated intangible assets') and considers October 2016 to be the point at which Expansion moved from the Research phase to the Development phase, and therefore development expenditure is capitalised in line with the principles of IAS 38.

Expansion costs incurred during the research phase for the Airports Commission process and before Heathrow was named as the preferred location for new runway capacity in October 2016, were expensed in the period incurred.

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

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–120 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Other land and buildings	
Short leasehold properties	3–20 years
Leasehold improvements	Lower of useful economic life or period of lease

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

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

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

As at 31 December 2018, the level of the fair value hierarchy within which the fair value measurement is categorised in its entirety is Level 3, as described in Note 16 'Financial Instruments'.

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

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

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

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

The recoverable amount of Heathrow has been calculated using the fair value less cost to sell methodology. Fair value has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant plan over the period until year 2041. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection has been calculated applying a multiple of 1.15x RAB.

An impairment test is a comparison of the carrying value of the assets of a CGU, to their recoverable amount calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, impairment exists. The carrying value of goodwill at Heathrow was tested for impairment as at 31 December 2018. No impairment charges resulted.

Projections for Q6 are based on the latest forecast approved by the Board in November 2018. Operational projections beyond Q6 reflect Heathrow's emerging Expansion plans which have been produced as part of discussions with airlines. It is a placeholder working assumption that supplements the assumptions of the masterplan for the Airports Commission submission and is not intended to prejudge the outcomes of public consultations.

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

- Capital expenditure
  From 2020 onwards, a series of major projects have been included covering the maintenance and replacement of existing assets, in order to add capacity to the existing infrastructure to meet forecast demand while maintaining the quality of the service. An updated forecast of the projections submitted to the Airports Commission has been used for this purpose.

- Return allowed by the regulator and discount rates
  The assumptions made for the return allowed by the regulator for future five yearly regulatory periods reflect a conservative view of the airport's cost of capital and expectations of the result of future price determinations. For Q6, the return assumed is slightly higher than the one allowed by the CAA in its decision due to an over performance expectation. For future quinquennia, Heathrow makes an assumption as to what the right cost of capital would be. The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount in the base case was 7.0%.

- Cost of debt
  Long term assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Goodwill *continued*

Sensitivity analysis

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

Internally-generated intangible assets

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

- the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; and
- the Group can demonstrate how the intangible asset created will generate future economic benefits; and
- the Group has available the resources to complete the asset; and
- the Group intends to complete that asset and has the future ability to sell or use the asset; and
- the development cost of the intangible asset can be measured reliably.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be held at cost less any accumulated amortisation and impairment. Amortisation begins when development is complete and the asset is ready for use.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years. During the period of development, the asset is tested for impairment annually.

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

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

Purchased intangible assets (software costs)

Computer software costs principally relate to operating and financial software. These assets are amortised over a period of between four and fifteen years. Amortisation for the year is charged through operating costs on a straight line basis. The assets are assessed for impairment whenever there is indication that the intangible asset may be impaired.

Purchased intangible assets (retail contracts)

Retail contracts relate to the acquisition of Heathrow Airports Holdings Group in June 2006. These assets are amortised over a period of between ten and fifteen years. Amortisation for the year is charged through operating costs. The assets are assessed for impairment whenever there is indication that the intangible asset may be impaired.

Leases

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

Group as a lessee

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

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

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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

Leases *continued*

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and with the exception of investment properties discussed above, the assets are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Restricted cash

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

Cash and cash equivalents

For the purposes of the Statement of financial position, cash and cash equivalents comprise cash at bank, cash in hand, money market funds, repurchase agreements with an original maturity of three months or less and short-term deposits with an original maturity of three months or less. For the Consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Term deposits

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

Deferred income

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

Provisions

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

Restructuring

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

Home loss payments

A home loss payments provision is recognised where an obligation arises during the year, as a result of a past event. The home loss payment provision is in respect of historic property purchases and related expenditures created in 2016 specifically in respect of Heathrow expansion, following the Government's decision in October 2016.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Classification and initial measurement of financial assets *continued*
Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:
- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets
Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Financial assets at fair value through other comprehensive income (FVOCI)
The Group accounts for financial assets at FVOCI if the assets meet the following conditions:
- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and,
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Impairment of financial assets
IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.
In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1');
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'); and
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Impairment of financial assets *continued*

Trade and other receivables

Trade receivables, which generally have 14-day terms, are initially recognised and carried at the lower of their original invoiced value and recoverable amount. Balances are written off when the probability of recovery is remote.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument.

In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

The Group assess impairment of trade receivables on a collective basis where they possess shared credit risk characteristics they have been grouped based on sector industry global default rates. Refer to Note 11 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The assessment of impairment for trade receivables can either be individually or collectively and is based on how an entity manages its credit risk. As the Group has a small number of receivables with large value and these receivables are managed on an account basis (i.e. individually) it is therefore not appropriate to base the impairment on a provision matrix as such a matrix would unlikely be in line with the expected credit loss of the individual receivable.

Financial liabilities and equity

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

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs.

Borrowings

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

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

Debt issue costs

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

Trade and other payables

Trade and other payables are non-interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

Financial instruments *continued*

Classification and measurement of financial liabilities *continued*

Derivative financial instruments and hedging activities

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

Derivative financial instruments are accounted for at fair value through profit and loss except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment.

To qualify for hedge accounting, the hedging relationship must meet all off the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship

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

The Group designates certain derivatives as either:

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

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

The fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months.

Novations of financial instruments

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

Fair value hedge

All hedging relationships that were hedging relationships under IAS 39 at the 31 December 2017 reporting date meet the IFRS 9's criteria for hedge accounting at 1 January 2018 and are therefore regarded as continuing hedging relationships.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship.

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss, as described in the Derivative Financial instruments note disclosure (Note 15).

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

Derivatives at fair value through profit and loss

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

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

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

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

Centralised services
LHR Airports Limited is considered to be acting as principal in relation to the services of the Heathrow Airport Holdings Limited ('HAHL') Group CEO, the HAHL Group CFO, the HAHL Chairman and HAHL non-executive board members and Ferrovial advisory services. These costs are recharged to Heathrow Airport Limited (the only remaining airport party to the SSA) with a mark-up of 7.5%. Other services are paid for and sourced directly by Heathrow Airport Limited, either without LHR Airports Limited's involvement or on a pass through fixed mark up only basis (agent). This judgement has been reached following consideration of whether LHR Airports Limited has been exposed to the majority of the significant benefits and risks associated with the exchange transaction.

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

Following the disposal of Aberdeen, Glasgow and Southampton airports the ('NDH1 Group') in December 2014, the directors reassessed the Group's relationship with the legal sponsor of the retirement benefit schemes (LHR Airports Limited) given that the HAH Group's sole operating airport is now Heathrow. The directors determined, after taking into account the Shared Service Agreement, employment relationships and the funding risk associated with the schemes, that Heathrow Airport Limited, and consequently the Group, now acts as principal in relation to these schemes. As a result, the Group now recognises an external asset or liability, in relation to the schemes, on its statement of financial position, as non-current under the caption of Retirement benefit surplus/obligations. Additionally, it is now considered appropriate for the Group to record actuarial gains and losses on the external scheme within other comprehensive income rather than the income statement.

The cost of providing benefits under the defined benefit pension scheme is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or curtailment occurs, the obligation and related plan asset are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

The Group recognises actuarial gains and losses in full in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the statement of financial position comprises the total for each plan of the present value of the defined benefit plan obligation (using a discount rate based on high-quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net defined benefit pension asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in future contributions.

Contributions to defined contribution pension schemes are recognised in the income statement in the period in which they become payable.

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

Accounting policies for the year ended 31 December 2018 *continued*

Current and deferred income tax *continued*
Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the 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, at rates expected to apply when they crystallise, based on current tax rates and law. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantively enacted during the year and are expected to apply in the periods in which the related deferred tax asset or liability is realised or settled.

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

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

Foreign currency
The consolidated financial statements are presented in Sterling, which is the parent company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement.

Significant accounting judgements and estimates for the year ended 31 December 2018

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

Critical judgements in applying the Group's accounting policies

Hedge accounting
Certain interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of forecast transactions or existing liabilities. Management compares on a regular basis existing and historic hedging arrangements against expectations for future Sterling re-financing. If there were significant changes in the expected quantum of future Sterling re-financing, then levels may be insufficient to support components of the cash flow hedge reserve, requiring the recycling of the cash flow hedge reserve through the income statement. As at 31 December 2018, £326 million of fair value losses (2017: £385 million) on these derivatives have been deferred into the cash flow hedge reserve.

Capitalisation
Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Judgement has been exercised in the year including in relation to:

- the assessment of assets in the course of construction, including expansion costs where judgement is exercised to determine costs that are directly attributable to the assets under construction;
- when a project moves from the research phase (where costs must be expensed in the current period) to the development phase and hence may be capitalised as the future economic benefit of the project becomes probable and the principles of IAS 38 are considered and applied;
- Assessing the useful economic life of an asset

Lease classification
A lease contract is classified as an operating or a finance lease based on the substance of the contract and whether the Group or the lessor have the substantial risks and benefits incidental to the ownership of the leased asset.

The Group has a lease agreement with UK Power Networks Services Limited ('UKPNS'/'Lessor') relating to the electricity distribution network at Heathrow. The lease expires in 2083. The group has determined this arrangement to be an operating lease rather than a finance lease under IAS 17. In this arrangement, the typical primary indicators of a finance lease under IAS 17 such as the lease term being for the major part of the economic life of the asset, the present value of the minimum lease payment amounts being substantially all of the fair value of the leased asset, appear to be met, largely due to the duration of the agreement. The substance of the agreement however results in significant risks and rewards associated with the ownership of electrical distribution network remaining with UKPNS. Other features within the contract that are more relevant in this lease determination include that the obligation to operate, maintain, insure and repair rests with the lessor rather than the Group. Accordingly, management believe an operating lease classification to be appropriate.

Key sources of estimation uncertainty

Investment properties
Investment properties are fair valued by CBRE Limited, Chartered Surveyors. The valuations are prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations are carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) is capitalised using yields derived from market evidence. This market evidence also considers planned transactions and use of the property (for example the future expansion of Heathrow). Independent valuations are obtained for all investment properties.

Management have reviewed the main assumptions underlying the valuation of Investment properties and the sensitivity analysis based on reasonable possible changes to relevant assumptions (Note 7).

The main estimations made that have a significant risk of resulting in a material adjustment to the carrying amounts investment properties within the next financial year have been assessed as those related to the two largest categories of Investment properties: a) Public and other Car Parks, and b) the large maintenance hangers leased to certain airlines, together representing 71% of the total value of Investment Properties at 31 December 2018.

Significant accounting judgements and estimates for the year ended 31 December 2018 *continued*

Key sources of estimation uncertainty *continued*

Investment properties *continued*
Large maintenance hangers leased to certain airlines are valued individually using actual data on rental yields based on existing contracts, and comparison with relevant local and regional market data. The results of the sensitivities to rental yields are shown in Note 7.

Car parks are valued individually using actual data on revenue in the current year and expectations of future growth rates. Sensitivities have been run to analyse the impact of a reasonable change in growth rates and a reasonable impact on the base revenue of Brexit, informed by discussions with CBRE and internal Heathrow property experts. The results of the sensitivities to future growth rates and base revenue estimations are shown in Note 7.

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

Management have reviewed the main assumptions underlying the valuation of Retirement benefit obligations and the sensitivity analysis based on reasonable possible changes to relevant assumptions (Note 18)

The main estimations made that have a significant risk of resulting in a material adjustment to the carrying value of the assets and liabilities relating to the scheme have been assessed as: a) Discount rate, b) Inflation rates, and c) Life expectancy.

Sensitivities have been run to analyse the impact of a reasonable change in these estimations informed by discussions with scheme actuaries KPMG and internal Heathrow experts. The results of the sensitivities are shown in Note 18.

1 Segment information

As described in the accounting policies on page 43, the Group is organised into business units according to the nature the services provided to Airport users. Most revenue is derived from the activities carried out within the Airport. The exception to this is Heathrow Express, which is a separately identifiable operating segment under IFRS 8, with separately identifiable assets and liabilities, and hence management aggregates these units into two operating segments, as follows;

- Heathrow (Aeronautical and commercial operations within the Airport and its boundaries)
- Heathrow Express (Rail income from the Heathrow Express rail service between Heathrow and London)

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis.

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

- Table (a) details total revenue from external customers for the year ended 31 December 2018 and is broken down into Aeronautical, Retail, ORCs and Other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is Adjusted EBITDA which is earnings before interest, tax, depreciation, amortisation, certain re-measurements.
- Table (b) details depreciation, amortisation and fair value adjustments
- Table (c) details assets and liability information by reportable segment. The assets and liabilities information by segment is not provided to the Board on a monthly basis but is included in this note as additional information.
- Section (d) details revenue and non-current asset information by geographical segment.

The comparative financial information has been re-presented. Tables (a) and (b), as disclosed within the 31 December 2017 financial statements, have been combined into table (a) and revenue previously disclosed as Aeronautical, Retail, ORCs, and other have been further disaggregated and incorporates the new requirements of IFRS 15. Tables previously presented as (c) and (d) have been re-presented in tables (b) and (c) respectively.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Segment Revenue Under IFRS 15		
Aeronautical		
Landing charges	**482**	470
Parking charges	**67**	63
Departing charges	**1,196**	1,183
Total Aeronautical revenue	**1,745**	1,716
Other regulated charges	**243**	240
Retail revenue	**147**	127
Property revenue	**129**	133
Rail Income		
Heathrow Express	**123**	127
Other	**14**	9
Revenue reported under IFRS 15	**2,401**	2,352
Revenue recognised at a point in time	**2,275**	2,232
Revenue recognised over time	**126**	120
Total revenue reported under IFRS 15	**2,401**	2,352
Under IAS 17		
Retail (lease-related income)	**569**	532
Total revenue	**2,970**	2,884
Heathrow	**2,847**	2,757
Heathrow Express	**123**	127
Adjusted EBITDA		
Heathrow	**1,775**	1,688
Heathrow Express	**65**	72
Total adjusted EBITDA	**1,840**	1,760
Reconciliation to statutory information:		
Depreciation and amortisation	**(752)**	(698)
Operating profit (before certain re-measurements)	**1,088**	1,062
Fair value gain on investment properties (certain re-measurements)	**117**	149
Operating profit	**1,205**	1,211
Finance income[1]	**4**	5
Finance costs[1]	**(755)**	(633)
Profit before tax	**454**	583
Taxation charge	**(73)**	(97)
Profit for the period	**381**	486

1 Prior year finance income and finance costs have been restated by (£196) million and £196 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance costs, and prior year finance costs includes £203 million fair value gain on financial instruments previously disaggregated.

Notes to the Group financial statements for the year ended 31 December 2018 *continued*

***Segment information** continued*
Revenue of £884 million (2017: £901 million) was derived from a single external customer and has been included within the Heathrow segment.

Table (b)

	Year ended 31 December 2018		Year ended 31 December 2017	
	Depreciation & amortisation[1] £m	**Fair value gain[2] £m**	Depreciation & amortisation[1] £m	Fair value gain[2] £m
Heathrow	**(681)**	**117**	(654)	149
Heathrow Express	**(71)**	**-**	(44)	-
Total	**(752)**	**117**	(698)	149

[1] Includes intangible asset amortisation charges of £32 million (2017: £44 million).
[2] Reflects fair value gains on investment properties only.

Table (c)

	Year ended 31 December 2018		Year ended 31 December 2017	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Heathrow	**16,679**	**(379)**	16,206	(376)
Heathrow Express	**670**	**(14)**	887	(4)
	17,349	**(393)**	17,093	(480)
Other operations	**-**	**(41)**	-	(20)
Total operations	**17,349**	**(434)**	17,093	(400)
Unallocated assets and liabilities:				
Cash, term borrowings and equity investments	**802**	**(14,802)**	597	(14,472)
Derivative financial instruments	**543**	**(1,562)**	614	(1,466)
Retirement benefit obligations	**28**	**(32)**	-	(158)
Deferred and current tax liabilities	**-**	**(919)**	-	(884)
Total	**18,722**	**(17,749)**	18,304	(17,380)

(d) FGP Topco Limited is domiciled in the UK. All revenue from external customers for continuing operations comes from the UK which for the year ended 31 December 2018 was £2,970 million (2017: £2,884 million). The breakdown of the major components of total revenue from external customers is shown in table (a) above.

Non-current assets excluding derivative financial instruments were £17,095 million (2017: £16,858 million). There were no non-current assets held outside the UK (2017: £nil).

2. Operating costs

Operating costs comprise:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Employment		
Wages and salaries	**345**	333
Social security	**37**	36
Pension	**47**	40
Other staff related costs	**24**	25
Own staff costs capitalised	**(63)**	(50)
	390	384
Operational	**264**	252
Maintenance	**177**	177
Business rates	**122**	126
Utilities	**91**	86
Other	**86**	99
Operating costs before depreciation and amortisation	**1,130**	1,124
Depreciation and amortisation		
Property, plant and equipment	**720**	654
Intangible assets	**32**	44
	752	698
Total operating costs[1]	**1,882**	1,822

[1] Total operating costs include expenditure on research and development of £2 million (2017: £2 million)

Rentals under operating leases

	Year ended 31 December 2018 £m	Year ended 31 December 2017 restated[3] £m
Operating costs include:		
Land and buildings[1]	**14**	15
Others[2]	**40**	39
Total rentals under operating leases	**54**	54

[1] The Group leases various offices, warehouses and plant and machinery under non-cancellable operating lease agreements.

[2] A significant portion of the operating rental costs as "Others" relates to electricity distribution network at the airport leased on agreement with UK Power Networks Services Limited 'UKPNS'.

[3] The amount for 2017 is restated to include Heathrow Express (HEX) track access lease and lease with UKPNS is re-classified from 'land and buildings' to 'others'.

Auditor's remuneration

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Fees payable to the Company's auditor for the audit of the:		
Company's annual accounts	**0.1**	0.1
Company's subsidiaries	**0.4**	0.4
Total audit fees	**0.5**	0.5
Fees payable to the Company's auditor and their associates for other services specific to the Group		
Audit related assurance services	-	0.1
Other services	-	0.1
Other assurance services	-	0.1
Total non-audit fees	-	0.3
Total fees	**0.5**	0.8

2 Operating costs *continued*

Employee numbers

The average number of employees of the Group was 7,276 (2017: 7,030).

	Year ended 31 December 2018	Restated Year ended 31 December 2017
United Kingdom		
Heathrow	**6,743**	6,435
Other operations	**533**	595
Total	**7,276**	7,030

2017 employee numbers have been restated to include permanent and non-permanent full-time equivalents for an average of 12 months of the year.

Management and directors' remuneration

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Key management compensation[1]		
Salaries and short-term employee benefits[2,3]	**6,484**	7,765
Sum paid to related parties for directors' services	**1,200**	1,200
Share in Success scheme	**6,528**	-
Termination benefits	**-**	301
Total	**14,212**	9,266

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

[2] For the year ended 31 December 2018 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

[3] £2,234,000 of bonus was paid in cash in 2018 (2017: £1,819,000)

Key management participate in various Long Term Incentive Performance Cash Plans. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a two, three or four year period. Key management remuneration in 2018 includes £632,000 in respect of the 2016 three year plan after certain EBITDA and Return on equity targets were met over the three years from 2016 to 2018, which will be paid in 2019.

Key management remuneration in 2018 also includes £6,528,000 in respect of the Share in Success schemes. The Share in Success schemes were available to all colleagues at Heathrow and were introduced in 2015 to reward colleagues in the event of a successful Q6 Regulatory Period. The targets were spread across the four strategic priorities of Beat the Plan, Transform Customer Service, Win support for Growth, and 'Mojo' and included various metrics and KPIs which were met or partially met over the four year period of the scheme. Although the achievement against overall targets, and hence payment, was not reasonably certain until the end of 2018, the total amount can be attributed to each year of the four years.

Directors' remuneration

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Sums paid to related parties for directors' services	**1,200**	1,200

None of the directors (2017: none) who served during the year ended 31 December 2018 received any emoluments from the Company.

During the year, none of the directors (2017: none) had retirement benefits accruing to them under a defined benefits scheme and none of the directors (2017: none) had retirement benefits accruing to them under a defined contribution scheme.

3 Financing
(a) Net finance costs before certain re-measurements

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Finance income		
Income from equity investments	**2**	2
Interest on deposits	**2**	3
Total finance income[4]	**4**	5
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(570)**	(597)
Bank loans and overdrafts and related hedging instruments	**(93)**	(106)
Net interest payable on external derivatives not in hedge relationship[2]	**(144)**	(168)
Facility fees and other charges	**(9)**	(7)
Net pension finance costs	**(4)**	(3)
Unwinding of credit discount	**-**	(1)
Total borrowing costs	**(820)**	(882)
Less: *capitalised borrowing costs*[3] (Note 6)	**50**	46
Total finance costs[4]	**(770)**	(836)
Net finance costs before certain re-measurements	**(766)**	(831)
Certain remeasurements		
Fair value gain/(loss) on financial instruments		
Interest rate swaps: not in hedge relationship	**59**	51
Cross-currency swaps: ineffective portion of cash flow hedges	**21**	5
Cross-currency swaps: ineffective portion of fair value hedges	**25**	13
Index-linked swaps: not in hedge relationship	**(90)**	134
Fair value gain on financial instruments	**15**	203
Net finance costs including certain re-measurements	**(751)**	(628)

[1] *Includes accretion of £47 million (2017: £48 million) on index-linked bonds.*
[2] Includes accretion of £207 million (2017: £222 million) on index-linked swaps.
[3] Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.66% (2017: 5.37%) to expenditure incurred on such assets.
[4] Prior year finance income and finance costs have been restated by (£196) million and £196 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

4 Taxation

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax						
Current tax						
Current tax charge at 19% (2017: 19.25%)	**(93)**	**(3)**	**(96)**	(59)	(2)	(61)
Over provision in respect of prior years	**4**	**-**	**4**	-	-	-
Total current tax charge	**(89)**	**(3)**	**(92)**	(59)	(2)	(61)
Deferred tax						
Current year (charge)/credit	**9**	**(17)**	**(8)**	(6)	(51)	(57)
Prior year credit[1]	**10**	**17**	**27**	13	8	21
Total deferred tax credit/(charge)	**19**	**-**	**19**	7	(43)	(36)
Taxation charge for the year	**(70)**	**(3)**	**(73)**	(52)	(45)	(97)

[1] Prior year credit for 2018 includes a £17 million adjustment in relation to revaluations of property, plant and equipment and a £10 million adjustment in relation to accelerated capital allowances (2017: an £9 million adjustment primarily in relation to investment properties and a £12 million adjustment primarily in relation to accelerated capital allowances).

4 Taxation *continued*

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the Group for the reasons set out in the following reconciliation:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before tax (before certain re-measurements)	**322**	231
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 19% (2017: 19.25%)	**(61)**	(44)
Net non-deductible expenses	**(21)**	(21)
Adjustments in respect of current income tax of previous years	**4**	-
Adjustments in respect of deferred income tax of previous years[1]	**10**	13
Effect of change in tax rate	**(2)**	-
Total tax charge before certain re-measurements	**(70)**	(52)
Tax charge on certain re-measurements[2]	**(3)**	(45)
Taxation charge for the year	**(73)**	(97)

[1] Prior year adjustment in 2018 relates primarily to accelerated capital allowances

[2] This consists of the tax impact arising from fair value gains on investment property revaluations, fair value gains/losses on financial instruments and a prior year adjustment relating to revaluations of property, plant and equipment.

The total tax charge recognised for the year ended 31 December 2018 was £73 million (2017: £97 million charge). Based on a profit before tax for the year of £454 million (2017: £583 million profit), this results in an effective tax rate of 16.1% (2017: 16.6%).

The total tax charge before certain re-measurements for the year ended 31 December 2018 was £70 million (2017: £52 million), which includes a £10 million prior year deferred tax credit adjustment (2017: £13 million prior year deferred tax credit adjustment) relating primarily to accelerated capital allowances. Based on a profit before tax and certain re-measurements of £322 million (2017: £231 million), this results in an effective tax rate of 21.7% (2017: 22.5%). The tax charge for 2018 is more (2017: more) than implied by the statutory rate of 19% primarily due to non-deductible expenses and because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

In addition there was a £3 million tax charge (2017: £45 million tax charge) reflecting the tax impact arising from fair value gains on investment property revaluations and fair value gains on financial instruments, along with an associated prior year adjustment relating to revaluations of property, plant and equipment.

The headline UK corporation tax rate was 20% up until 1 April 2017, when it reduced to 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of these rate reductions has been reflected in the deferred tax balances in the financial statements.

In November 2017 the Finance (No.2) Act 2017 received Royal Assent, giving effect to a new interest deductibility regime. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). As a result of the new legislation, from 1 April 2017, interest deductions are limited to 30% of tax based EBITDA, with the ability to apply a group ratio rule (GRR) and a public infrastructure exemption (PIE). Heathrow is to a large extent protected from the 30% of tax based EBITDA cap therefore no material interest disallowance has been reflected in the 2018 tax charge (2017: less than £0.1 million).

In the November 2018 Budget the Government announced a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property will be available where the construction contract is entered on or after 29 October 2018. Relief will be provided on eligible construction costs at an annual rate of 2% on a straight-line basis, effectively giving tax relief over a 50-year period. Heathrow is likely to benefit in future years from tax relief on expenditure which would not be eligible under current rules. Other than these changes, there are no items which would materially affect the future tax charge.

5 Dividends

During the year ended 31 December 2018, the Company declared dividends of £500 million (£0.09 per share) to ordinary shareholders being £114 million (£0.02 per share) on 21 February 2018, £114 million (£0.02 per share) on 27 June 2018, £114 million (£0.02 per share) on 23 July 2018 and £158 million[1] (£0.03 per share) on 20 December 2018 (During the year ended 31 December 2017, the Company declared and paid dividends of £525 million (£0.10 per share) to ordinary shareholders being £94 million (£0.02 per share) on 23 February 2017, £94 million (£0.02 per share) on 29 June 2017, £94 million (£0.02 per share) on 26 July 2017 and £243 million (£0.04 per share) on 20 December 2017.)

£17 million of the dividend declared on 31 December 2018 remained unpaid at the year end and is included in 'Other payables' (note 20). All other dividends were paid on the date declared.

6 Property, plant and equipment

	Note	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2017		10,942	1,291	776	194	1,303	1,158	15,664
Additions		-	-	-	-	-	683	683
Transfers to completed assets		495	331	89	1	1	(917)	-
Borrowing costs capitalised	3	-	-	-	-	-	46	46
Disposals		(77)	(10)	(25)	(6)	(7)	-	(125)
Transfers to intangibles	8	-	-	-	-	-	(77)	(77)
Reclassifications[1]		50	6	1	2	6		65
1 January 2018		**11,410**	**1,618**	**841**	**191**	**1,303**	**893**	**16,256**
Additions		-	-	-	-	-	**769**	**769**
Transfers to completed assets		**376**	**(112)**	**257**	**25**	**44**	**(590)**	-
Borrowing costs capitalised	3	-	-	-	-	-	**50**	**50**
Disposals		**(3)**	**(1)**	**(10)**	-	**(15)**	-	**(29)**
Transfers to intangibles	8	-	-	-	-	-	**(6)**	**(6)**
Reclassifications[1]		-	-	-	-	-	-	-
31 December 2018		**11,783**	**1,505**	**1,088**	**216**	**1,332**	**1,116**	**17,040**
Depreciation and impairment								
1 January 2017		(3,049)	(318)	(328)	(49)	(402)	-	(4,146)
Charge for the year		(472)	(53)	(78)	(8)	(43)	-	(654)
Disposals		77	10	25	6	7	-	125
Reclassifications[1]		(50)	(6)	(1)	(2)	(6)	-	(65)
1 January 2018		**(3,494)**	**(367)**	**(382)**	**(53)**	**(444)**	-	**(4,740)**
Charge for the year		**(491)**	**(46)**	**(101)**	**(11)**	**(71)**	-	**(720)**
Disposals		**3**	**1**	**10**	-	**15**	-	**29**
Reclassifications[1]		-	-	-	-	-	-	-
31 December 2018		**(3,982)**	**(412)**	**(473)**	**(64)**	**(500)**	-	**(5,431)**
Net book value								
31 December 2018		**7,801**	**1,093**	**615**	**152**	**832**	**1,116**	**11,609**
31 December 2017		7,916	1,251	459	138	859	893	11,516

[1] Reclassifications comprise cost and amortisation with £nil impact on the net book value in relation to historic adjustments.

Other land and buildings
Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2018 of £11 million (2017: £11 million).

Assets in the course of construction
The major balances in assets in the course of construction include Baggage programme projects to install the latest generation of Baggage screening machines, the Asset Management programme to replace assets at the end of their useful life, and the Airport resilience programme including tunnels and airfield improvements.

Accelerated Depreciation
Depreciation in 2018 includes accelerated depreciation on Heathrow Express rolling stock (£28 million accelerated depreciation in rail assets) and the Temporary flight connection centre (£13 million accelerated depreciation in terminal complexes) of £41 million (2017: £nil).

Borrowing costs capitalised
During the year ended 31 December 2018, borrowing costs of £50 million were capitalised (2017: £46 million). Capitalised borrowing costs were calculated by applying an average interest rate of 5.66% (2017: 5.37%) to expenditure incurred on qualifying assets.

A tax deduction of £50 million (2017: £46 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

6 Property, plant and equipment *continued*

Regulatory asset base (RAB)
RAB at Dec 2018 was £16,200 million (2017: 15,786 million).

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

	31 December 2018 £m	31 December 2017 £m
Cost or valuation	**601**	594
Accumulated depreciation	**(289)**	(251)
Net book value	**312**	343

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 14.

7 Investment properties

	Note	**Airport investment properties £m**
Valuation		
1 January 2017		2,200
Additions		1
Revaluation		149
31 December 2017		**2,350**
Additions		**4**
Transfers from property, plant and equipment	*6,8*	**1**
Revaluation		**117**
31 December 2018		**2,472**

Investment properties were valued at fair value at 31 December 2018 by CBRE Limited, Chartered Surveyors (2017: CBRE Limited, Chartered Surveyors).

All valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. The fair value measurement hierarchy used in calculating fair value (refer to Note 16) has been classified as level 3. The higher the discount rate and expected vacancy rate, the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

The Investment Property portfolio includes Car Parks (for passengers and employees) and Maintenance Hangars, which together account for 71% (2017: 67%) of the fair value of the investment property portfolio at 31 December 2018. As stated above, the valuations are based on assumptions relevant to the type of property being valued. Management have reviewed the assumptions, as described in the sensitivity analysis below prepared by CBRE limited, using a wider range of sensitivities than the prior year due to uncertainties identified in the UK property market as a result of Brexit.

	Increase/(decrease) in asset valuation
Car parks – Base revenue	
+2.0% pa	**36**
-2.0% pa	**(36)**
Car parks – Revenue growth	
+0.5% pa	**87**
-0.5% pa	**(83)**
Maintenance Hangars – Net initial yield	
+0.5% pa	**49**
-0.5% pa	**(64)**

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Notes to the Group financial statements for the year ended 31 December 2018 *continued*

7 Investment properties *continued*
The sensitivities analysis above has been determined based on reasonably possible changes to the respective assumptions, holding all other assumptions constant. The methodology used in arriving at the incremental changes shown above is consistent with that used for the valuation of car parks and maintenance hangars within the Investment Property portfolio at the year end.

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

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to less than £1 million (2017: £1 million) for which a similar amount is included within operating costs.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £76 million (2017: £74 million). Direct operating expenses arising on the investment property, all of which generated rental income in the period, amounted to £1 million (2017: £1 million). The Group has entered into contracts for the maintenance of its investment property, which will give rise to an annual charge of less than £1 million (2017: less than £1 million).

Security granted by the Group over its assets, including investment properties, is disclosed in Note 14.

8 Intangible assets

	Note	**Goodwill £m**	**Software costs £m**	**Retail contracts £m**	**Total £m**
Cost					
1 January 2017		2,753	231	65	3,049
Additions		-	17	-	17
Disposals		-	(16)	(1)	(17)
Transfers from property, plant and equipment		-	77	-	77
31 December 2017		**2,753**	**309**	**64**	**3,126**
Additions		-	**20**	-	**20**
Disposals		-	**(2)**	-	**(2)**
Transfers from property, plant and equipment	6,7	-	**5**	-	**5**
31 December 2018		**2,753**	**332**	**64**	**3,149**
Amortisation and impairment					
1 January 2017		-	(109)	(47)	(156)
Charge for the year		-	(40)	(4)	(44)
Disposals		-	16	1	17
31 December 2017		-	**(133)**	**(50)**	**(183)**
Charge for the year	2	-	**(28)**	**(4)**	**(32)**
Disposals		-	**2**	-	**2**
31 December 2018		-	**(159)**	**(54)**	**(213)**
Net book value					
31 December 2018		**2,753**	**173**	**10**	**2,936**
31 December 2017		2,753	176	14	2,943

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

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

The recoverable amount of Heathrow has been calculated using the fair value less cost to sell methodology. Fair value has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant plan over the period until year 2041. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection has been calculated applying a multiple of 1.15x RAB.

Goodwill *continued*
An impairment test is a comparison of the carrying value of the assets of a CGU, to their recoverable amount calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, impairment exists. The carrying value of goodwill at Heathrow was tested for impairment as at 31 December 2018. No impairment charges resulted.

Projections for Q6 are based on the latest forecast approved by the Board in November 2018. Operational projections beyond Q6 reflect Heathrow's emerging Expansion plans which have been produced as part of discussions with airlines. It is a placeholder working assumption that supplements the assumptions of the masterplan for the Airports Commission submission and is not intended to prejudge the outcomes of public consultations.

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

- Capital expenditure:
  From 2020 onwards, a series of major projects have been included covering the maintenance and replacement of existing assets, in order to add capacity to the existing infrastructure to meet forecast demand while maintaining the quality of the service. An updated forecast of the projections submitted to the Airports Commission has been used for this purpose.

- Return allowed by the regulator and discount rates:
  The assumptions made for the return allowed by the regulator for future five yearly regulatory periods reflect a conservative view of the airport's cost of capital and expectations of the result of future price determinations. For Q6, the return assumed is slightly higher than the one allowed by the CAA in its decision due to an over performance expectation. For future quinquennia, Heathrow makes an assumption as to what the right cost of capital would be. The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount in the base case was 7.0%.

- Cost of debt:
  Long-term assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

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

Software costs
The capitalised computer software costs principally relate to operating and financial software.

9 Equity investments

	31 December 2018 £m	31 December 2017 £m
Unlisted securities		
1 January	**30**	31
Loss recognised in equity	**-**	(1)
31 December	**30**	30

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

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031. A rate of 6.6% (2017: 6.7%) has been used as the discount factor.

Disclosure of the Group's financial risk management framework that includes the governance of its equity investments is included in Note 16.

10 Inventories

	31 December 2018 £m	31 December 2017 £m
Consumables	**13**	11

The total amount of inventories consumed in the year was £7 million (2017: £6 million). There is no material difference between the statement of financial position value of inventories and their replacement cost.

11 Trade and other receivables

	31 December 2018 £m	31 December 2017 £m
Non-current		
Prepaid debt fees[1]	**6**	4
Prepayments	**14**	15
	20	19
Current		
Trade receivables	**120**	101
Accrued income[2]	**133**	115
Trade receivables and accrued income	**253**	216
Less: provision for impairment	**(4)**	(2)
Trade receivables and accrued income after impairment	**249**	214
Prepayments	**35**	27
Other receivables	**15**	13
	299	254

[1] Prepaid debt fees largely relate to financing fees paid on facilities not yet drawn and are amortised over the term of the facility. For the year ended 31 December 2018, the Group paid £4 million (2017: £nil) in respect of these fees.
[2] Accrued income is net of any amounts received in advance from customers.

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

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

As at 31 December 2018, trade receivables of £88 million (2017: £87 million) were fully performing. Trade receivables of £32 million (2017: £14 million) were past due. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2018 £m	31 December 2017 £m
Fully performing	**88**	87
Past due but not impaired:		
Not impaired but overdue by less than 30 days	**13**	4
Not impaired but overdue by between 30 and 60 days	**7**	-
Not impaired but overdue by more than 60 days	**1**	3
	21	7
Overdue by more than 90 days	**11**	7
Total trade receivables	**120**	101

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

	£m
1 January 2017	1
Provision for trade receivables	1
31 December 2017	**2**
Change in accounting standard – IFRS 9	**2**
1 January 2018	**4**
Impairment of trade receivables (calculated under IFRS 9)	**-**
31 December 2018	**4**

Note 16 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The above comparative for impairment provisions refers to the IAS 39 measurement basis which applied an incurred loss model, whereas the current year applies IFRS 9 which is an expected loss model.

As at 31 December 2018, trade receivables were considered for impairment under IFRS 9 resulting in an additional £2 million (2017: £nil million). During the period, the company made £nil write-offs of trade receivables (2017: £2 million) with all remaining amount expected to be fully recovered. The individual impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included in 'general expenses' within 'operating costs' in the consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery, with additional impairment for forward looking ECL and probable default.

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 16.

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Notes to the Group financial statements for the year ended 31 December 2018 *continued*

12 Restricted cash

	31 December 2018 £m	31 December 2017 £m
Cash at bank and in hand	**3**	2
Short-term deposits	**11**	12
	14	14

13 Cash and cash equivalents and term deposits

	31 December 2018 £m	31 December 2017 £m
Cash at bank and in hand	**70**	71
Short-term deposits	**568**	470
Cash and cash equivalents	**638**	541
Term deposits	**120**	12
Cash and cash equivalents and term deposits	**758**	553

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

Heathrow Airport Limited holds investments in term deposits, which have an original maturity of more than three months.

For the purposes of the Consolidated statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand, money market funds, repurchase agreements, term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments, restricted cash and bank overdrafts.

14 Borrowings

	31 December 2018 £m	31 December 2017 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
4.600% €750 million due 2018	**-**	666
6.250% £400 million due 2018	**-**	399
4.000% C$400 *million* due 2019	**230**	-
Total Heathrow Funding Limited bonds	**230**	1,065
Heathrow Finance plc bonds:		
5.375% £275 million due 2019	**262**	-
Total bonds	**492**	1,065
Heathrow Airport Limited loans	**17**	33
Total current (excluding interest payable)	**509**	1,098
Interest payable	**233**	258
Total current	**742**	1,356
Non-current		
Secured	**£m**	£m
Heathrow Funding Limited bonds:		
4.000% C$400 million due 2019	**-**	235
6.000% £400 million due 2020	**399**	398
9.200% £250 million due 2021	**268**	278
3.000% C$450 million due 2021	**256**	260
4.875% US$1,000 million due 2021	**780**	745
1.650%+RPI £180 million due 2022	**213**	206
1.875% €600 million due 2022	**549**	545
5.225% £750 million due 2023	**737**	738
7.125% £600 million due 2024	**593**	592
0.500% CHF400 million due 2024	**310**	293
3.250% C$500 *million* due 2025	**281**	286
4.221% £155 million due 2026	**155**	155
6.750% £700 million due 2026	**688**	686
2.650% NOK1,000 million due 2027	**90**	90
7.075% £200 million due 2028	**221**	222

14 Borrowings *continued*

3.400% C$400 million due 2028	**232**	-
4.150% A$175 million due 2028	**99**	-
2.500% NOK1,000 million due 2029	**79**	81
1.500% €750 million due 2030	**629**	624
3.782% C$400 million due 2030	**229**	-
6.450% £900 million due 2031	**852**	850
Zero-coupon €50 million due 2032	**59**	57
1.366%+RPI £75 million due 2032	**85**	82
Zero-coupon €50 million due 2032	**58**	56
1.875% €500 million due 2032	**447**	442
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**50**	49
1.061%+RPI £180 million due 2036	**197**	191
1.382%+RPI £50 million due 2039	**56**	55
3.334%+RPI £460 million due 2039	**623**	604
1.238%+RPI £100 million due 2040	**111**	107
5.875% £750 million due 2041	**732**	732
2.926% £55 million due 2043	**55**	-
4.625% £750 million due 2046	**742**	742
1.372%+RPI £75 million due 2049	**85**	82
2.750% £400 million due 2049	**392**	392
0.147%+RPI £160 million due 2058	**163**	-
Total Heathrow Funding Limited bonds	**11,565**	10,925
Heathrow Finance plc bonds:		
5.375% £275 million due 2019	**-**	262
4.750% £300 million due 2024	**297**	-
5.750% £250 million due 2025	**248**	248
3.875% £275 million due 2027	**273**	273
Total Heathrow Finance plc bonds	**818**	783
Total bonds	**12,383**	11,708
Heathrow Airport Limited debt:		
Class A1 term loan due 2020	**418**	416
Class A2 term loan due 2024	**100**	-
Term notes due 2026-2037	**584**	439
Loans	**12**	29
Heathrow Finance plc facilities	**488**	524
ADI Finance 2 Limited facilities	**75**	-
Total bank loans	**1,677**	1,408
Total non-current	**14,060**	13,116
Total borrowings (excluding interest payable)	**14,569**	14,214

Heathrow Funding Limited bonds

The maturity dates of the Heathrow Funding Limited bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and Heathrow Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.000% £400 million due 2020, 7.125% £600 million due 2024, 4.221% £155 million due 2026 and 1.061%+RPI £180 million due 2036 bonds wherein the redemption dates coincide with their legal maturity dates.

Fair value of borrowings	**31 December 2018**		31 December 2017	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m
Current				
Short-term debt	**509**	**518**	1,098	1,084
Non-current				
Long-term debt	**14,060**	**16,445**	13,116	15,784
	14,569	**16,963**	14,214	16,868

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

14 Borrowings *continued*

Fair value of borrowings *continued*

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair value of listed borrowings are based on quoted prices at balance sheet date. For unlisted borrowings, the Group establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data (Level 2). The fair value of borrowings which have floating rate interest are assumed to equate to their nominal value. At 31 December 2018, the fair value of debt classified as Level 1 and Level 2 was £14,112 million and £2,851 million respectively (2017: £15,006 million and £1,862 million respectively).

The average cost of the Group's external gross debt at 31 December 2018 was 3.74% (2017: 3.96%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked swap accretion. Including index-linked swap accretion, the Group's average cost of debt at 31 December 2018 was 5.30% (2017: 5.62%). The reduction in the average cost of debt excluding index-linked accretion is mainly due to the replacement of relatively high cost maturing legacy debt with newer lower cost debt in 2018 and recent moves in inflation with the retail price index ('RPI') inflation falling from a high of 3.9% in September 2017 to 3.4% in June 2018.

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was GBP200 million, EUR1,850 million, US$1,000 million, C$1,750 million, CHF 400 million, A$175 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	31 December 2018		31 December 2017	
	Nominal £m	Fair value adjustment[1] £m	Nominal value £m	Fair value adjustment[1] £m
Sterling debt	**200**	**2**	200	(4)
Euro denominated debt	**1,498**	**26**	1,498	19
USD denominated debt	**621**	**-**	621	(11)
CAD denominated debt	**1,227**	**3**	763	-
Other currencies debt	**549**	**17**	451	27
	4,095	**48**	3,533	31

[1] Fair value adjustment is comprised of £89 million fair value gain on continuing hedges and a £41 million loss on discontinued hedges.

Securities and guarantees

Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements.

Heathrow (DSH) Limited and Heathrow Finance plc have also granted security over all of their assets, which includes first priority security interests in the share capital of Heathrow Finance plc and its wholly-owned subsidiary, Heathrow (SP) Limited, to secure their obligations under their financing agreements.

BAA Pension Trust Company Limited, as a trustee of the BAA Pension Scheme, is a Borrower Secured Creditor and ranks equally in an amount up to £284 million with senior (Class A) debt.

LHR Airports Limited has provided a guarantee and indemnity to Deutsche Trustee Company Limited (in its capacity as the 'Bond Trustee') in exchange for the conversion of certain classes of legacy bonds originally issued by LHR Airports Limited (the 'LHR Guaranteed Bonds') into Bonds. Pursuant to this guarantee and indemnity, LHR Airports Limited unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by Heathrow Funding Limited in respect of scheduled interest and payment of principal on such LHR Guaranteed Bonds.

Heathrow Funding Limited has given the Bond Trustee a covenant to pay and discharge, when due, to each of the Issuer Secured Creditors (including Bondholders) all Issuer Secured Liabilities (including all amounts due under the Bonds). The Bond Trustee holds the benefit of that covenant on trust for itself and the Issuer Secured Creditors. Heathrow Funding Limited has also granted security to the Bond Trustee (for itself and as trustee for the Issuer Secured Creditors) over its property, assets, undertakings and rights to secure the covenant to pay and discharge the Issuer Secured Liabilities.

Heathrow Airport Limited and Heathrow Express Operating Company Limited have provided a guarantee and indemnity in favour of Lloyds Bank plc (in its capacity as the Borrower Account Bank) in respect of each other's obligations under the Borrower Account Bank Agreement and associated financing agreements. ADI Finance 1 Limited and ADI Finance 2 Limited have granted security to Lloyds Bank plc (in its capacity as the 'Security Agent') over all of their assets, which includes their interests in the share capital of ADI Finance 2 Limited and Heathrow Airport Holdings Limited, respectively, to secure their obligations under the ADI Finance 2 Limited financing agreements. Additional disclosures on risk management and hedging of borrowings are included in Notes 15 and 16.

15 Derivative financial instruments

31 December 2018	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts	**11**	**-**	**-**	**-**
Interest rate swaps	**204**	**-**	**(5)**	**(5)**
Cross-currency swaps	**250**	**-**	**(19)**	**(19)**
Index-linked swaps	**124**	**-**	**(15)**	**(15)**
	589	**-**	**(39)**	**(39)**
Non-current				
Interest rate swaps	**2,309**	**-**	**(377)**	**(377)**
Cross-currency swaps	**3,685**	**502**	**(6)**	**496**
Index-linked swaps	**6,395**	**41**	**(1,140)**	**(1,099)**
	12,389	**543**	**(1,523)**	**(980)**
Total	**12,978**	**543**	**(1,562)**	**(1,019)**

31 December 2017	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	5	-	-	-
Interest rate swaps	400	-	(3)	(3)
Cross-currency swaps	510	170	-	170
Index-linked swaps	97	-	(4)	(4)
	1,012	170	(7)	163
Non-current				
Foreign exchange contracts	3	-	-	-
Interest rate swaps	2,513	-	(466)	(466)
Cross-currency swaps	3,374	408	(29)	379
Index-linked swaps	5,119	36	(964)	(928)
	11,009	444	(1,459)	(1,015)
Total	12,021	614	(1,466)	(852)

Interest rate swaps

Interest rate swaps are maintained by the Group and designated as cash flow hedges, where they qualify, against variability in interest cash flows on current and future floating or fixed borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk. The losses deferred of £39 million are expected to be released in less than one year, £30 million between one and two years, £79 million between two and five years and £178 million over five years. Of the total amount deferred in other comprehensive income, £277 million (2017: £290 million) related to discontinued cashflow hedges.

Cross-currency swaps

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on certain swaps in cash flow hedge relationships will be continuously released to the income statement over the period to maturity of the hedged bonds. The gains deferred of £7 million are expected to be released in less than one year, losses of £5 million between one and two years, £3 million between two and five years and £4 million over five years.

Index-linked swaps

Index-linked swaps have been entered into in order to economically hedge RPI linked revenue and the Regulatory Asset Base but are not designated in a hedge relationship.

Foreign exchange contracts

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

16 Financial instruments

Financial risk management objectives and policies

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

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

16 Financial instruments *continued*

Financial risk management objectives and policies *continued*

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

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

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

Foreign exchange risk

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

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

Price risk

The Group is exposed to RPI risk on its index-linked bonds and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2018, with all other variables remaining constant, if the RPI had increased or decreased by a factor of 10%, annual pre-tax profit would have decreased or increased by £370 million and £356 million respectively (2017: £235 million and £228 million respectively). During 2018, the highest month-on-month RPI curve movement averaged 4% and the highest month-on-month movement for a given term (1-year) was 12%. Therefore 10% is considered to be reasonable and provides an appropriate stress test.

Cash flow and fair value interest rate risk

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

As at 31 December 2018, the Group's fixed floating interest rate profile, after hedging, on gross debt was 89:11 (2017: 97:03).

Each 0.50% change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movements in the finance income, finance cost and mark-to-market valuation of derivatives:

	31 December 2018		31 December 2017	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
0.50% increase	**223**	**75**	160	69
0.50% decrease	**(235)**	**(80)**	(168)	(69)

During 2018, the highest month-on-month 6 month GBP LIBOR curve movement was 0.21%; therefore 0.50% is considered to be reasonable and provides an appropriate stress test.

Credit risk

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

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

***16* Financial instruments** *continued*

Credit risk *continued*

As at 31 December 2018, the Group had credit risk on derivatives with asset mark to market of £543 million (2017: £614 million).

Financial assets past due but not impaired are disclosed in Note 11 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2018 was £1,594 million (2017: £1,425 million) as disclosed in Note 16 'Financial instruments by category'.

The Group applies IFRS 9 for recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and, also according to the industry sector of the Group's customers.

The expected loss rates are based on Global industry default rates as well as the corresponding historical credit.

The historical rates are adjusted to reflect the loss given default factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period. Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery, therefore moving from 'Stage 2' to 'Stage 3'.

On the above basis the expected credit loss for trade receivables as at 31 December 2018 and 1 January 2018 was determined as follows:

31 December 2018	**Current**	**1-30 days**	**31-60 days**	**61-90 days**	**Over 180 days**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Trade receivables						
Gross carrying amount	**88**	**13**	**7**	**1**	**11**	**120**
Lifetime expected credit loss	**(4)**	**-**	**-**	**-**	**-**	**(4)**
Total adjusted receivables	**84**	**13**	**7**	**1**	**11**	**116**

01 January 2018	Current	1-30 days	31-60 days	61-90 days	Over 180 days	Total
	£m	£m	£m	£m	£m	£m
Trade receivables						
Gross carrying amount	87	4	-	3	7	101
Lifetime expected credit loss	(2)	-	-	-	-	(2)
Total adjusted receivables	85	4	-	3	7	99

Liquidity risk

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

16 Financial instruments continued

Liquidity risk *continued*

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

	31 December 2018 £m	31 December 2017 £m
Floating rate facilities		
Expiring in more than two years and less than five years	**1,150**	1,150
Expiring in more than five years[1]	**672**	175
	1,822	1,325

[1] £472 million of the amounts expiring greater than five years will be drawn between 2019 and 2020.

As at 31 December 2018, overdraft facilities of £10 million were available (2017: £10 million).

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

31 December 2018	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	192	(37)	3,046	11,080
Borrowing interest payments	601	587	1,510	3,767
Derivative financial instruments	34	294	(245)	(744)
Trade payables	180	-	-	-
Capital payables	135	-	-	-

31 December 2017	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	943	529	2,770	9,736
Borrowing interest payments	608	547	1,420	3,865
Derivative financial instruments	101	7	103	(281)
Trade payables	180	-	-	-
Capital payables	134	-	-	-

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

31 December 2018	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	110	103	239	405
Cross-currency derivative receipts	(110)	(101)	(206)	(421)

31 December 2017	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	86	71	169	245
Cross-currency derivative receipts	(123)	(92)	(206)	(500)

Capital risk management

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

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

FGP Topco Limited

Notes to the Group financial statements for the year ended 31 December 2018 *continued*

16 Financial instruments *continued*
Financial risk management objectives and policies *continued*
Capital risk management *continued*
There are gearing covenants in financing agreements at various levels of the Group including ADI Finance 2 Limited, Heathrow Finance plc and Heathrow (SP) Limited. Gearing ratios of each of these are below:

	31 December 2018	31 December 2017
Net debt to RAB at ADI Finance 2 Limited	**0.87**	0.87
Net debt to RAB at Heathrow Finance plc	**0.86**	0.87
Total net debt to RAB at Heathrow (SP) Limited	**0.77**	0.78
Senior net debt to RAB at Heathrow (SP) Limited	**0.68**	0.67

At 31 December 2018, the Group's senior (Class A) and junior (Class B) trigger levels were 72.5% and 85.0% under its financing agreements. Note that the Group's senior gearing trigger level increased from 70.0% to 72.5% with effect from 1 April 2018. At 31 December 2018, Heathrow Finance's gearing covenant level was 90.0% under its financing agreements. Heathrow Finance's gearing covenant will increase to 92.5% from 1 September 2019.

Financial instruments by category

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

31 December 2018	**Loans and receivables £m**	**Assets at fair value through income statement £m**	**Derivatives qualifying for hedge accounting £m**	**Equity investments £m**	**Total £m**
Equity investments	-	-	-	**30**	**30**
Derivative financial instruments[1]	-	**51**	**492**	-	**543**
Cash and cash equivalents	**652**	-	-	-	**652**
Trade receivables	**249**	-	-	-	**249**
Term deposits	**120**	-	-	-	**120**
Total financial assets	**1,021**	**51**	**492**	**30**	**1,594**

[1] *Designated in fair value hedges of interest rate risk with changes in fair value recognised in the income statement of £492 million.*

31 December 2018	**Liabilities at fair value through income statement £m**	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities at amortised cost £m**	**Total £m**
Borrowings	-	-	**(14,569)**	**(14,569)**
Derivative financial instruments[1,2]	**(1,454)**	**(108)**	-	**(1,562)**
Trade payables	-	-	**(180)**	**(180)**
Capital payables	-	-	**(135)**	**(135)**
Total financial liabilities	**(1,454)**	**(108)**	**(14,884)**	**(16,446)**

[1] Designated in fair value hedges of interest rate risk with changes in fair value recognised in the income statement of £6 million.
[2] Designated in cashflow hedges of interest rate risk with changes in fair value recognised in other comprehensive income of £39 million.

31 December 2017	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Equity investments £m	Total £m
Equity investments	-	-	-	30	30
Derivative financial instruments	-	36	578	-	614
Cash and cash equivalents	555	-	-	-	555
Trade receivables	214	-	-	-	214
Term deposits	12	-	-	-	12
Total financial assets	781	36	578	30	1,425

31 December 2017	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	-	(14,214)	(14,214)
Derivative financial instruments	(1,228)	(238)	-	(1,466)
Trade payables	-	-	(180)	(180)
Capital payables	-	-	(134)	(134)
Total financial liabilities	(1,228)	(238)	(14,528)	(15,994)

FGP Topco Limited

Notes to the Group financial statements for the year ended 31 December 2018 *continued*

16 **Financial instruments** *continued*
Financial instruments by category *continued*

At 31 December 2018, the only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

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

At 31 December 2018 and 2017, all the resulting fair value estimates on derivative financial instruments are included in level 2.

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

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

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

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

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

	31 December 2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Assets at fair value through income statement	-	**51**	-	**51**
Derivatives qualifying for hedge accounting	-	**492**	-	**492**
Equity investments	-	-	**30**	**30**
Total assets	-	**543**	**30**	**573**
Liabilities				
Liabilities at fair value through income statement	-	**(1,454)**	-	**(1,454)**
Derivatives qualifying for hedge accounting	-	**(108)**	-	**(108)**
Total liabilities	-	**(1,562)**	-	**(1,562)**

	31 December 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	36	-	36
Derivatives qualifying for hedge accounting	-	578	-	578
Equity investments	-	-	30	30
Total assets	-	614	30	644
Liabilities				
Liabilities at fair value through income statement	-	(1,228)	-	(1,228)
Derivatives qualifying for hedge accounting	-	(238)	-	(238)
Total liabilities	-	(1,466)	-	(1,466)

16 Financial instruments *continued*
***Fair value estimation** continued*

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

Changes in Level 3 instruments have been disclosed in Note 9.

17 Deferred income tax

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

	Note	2018 £m	2017 £m
1 January		**(858)**	(829)
Credited/(charged) to income statement		**19**	(36)
(Charged)/credited to equity	24	**(37)**	7
31 December		**(876)**	(858)

Deferred tax is analysed as follows:

	31 December 2018 £m	31 December 2017 £m
Deferred income tax liabilities	**(1,089)**	(1,109)
Deferred income tax assets	**213**	251
31 December	**(876)**	(858)

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

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Revaluations of property, plant and equipment £m	Fair value of retail contracts £m	Other £m	Total £m
1 January 2017	(839)	(188)	(57)	(3)	(23)	(1,110)
Credited/(charged) to income statement	5	(10)	-	1	1	(3)
Credited to other comprehensive income	-	-	2	-	-	2
Re-allocation to deferred income tax assets	-	1	-	-	1	2
1 January 2018	**(834)**	**(197)**	**(55)**	**(2)**	**(21)**	**(1,109)**
Credited/(charged) to income statement	**18**	**(17)**	**17**	**1**	**1**	**20**
31 December 2018	**(816)**	**(214)**	**(38)**	**(1)**	**(20)**	**(1,089)**

Deferred income tax assets

	Capital losses £m	Non trade deficit £m	Financial instruments £m	Fair value of long-term borrowings £m	Fair value uplift of bonds £m	Post employment benefits £m	Total £m
1 January 2017	10	70	158	3	19	21	281
Charged to income statement	-	(3)	(22)	(2)	(3)	(3)	(33)
(Charged)/credited to other comprehensive income	-	-	(5)	-	-	10	5
Re-allocation from deferred income tax liabilities	-	-	-	-	(2)	-	(2)
1 January 2018	**10**	**67**	**131**	**1**	**14**	**28**	**251**
(Charged)/credited to income statement	-	**(7)**	**10**	-	**(2)**	**(2)**	**(1)**
Charged to other comprehensive income	-	-	**(11)**	-	-	**(26)**	**(37)**
31 December 2018	**10**	**60**	**130**	**1**	**12**	-	**213**

17 Deferred income tax *continued*

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

	Note	**31 December 2018 £m**	31 December 2017 £m
Cash flow hedge reserve		**(11)**	(5)
Tax relating to indexation of operational land		**-**	2
Tax (charge)/credit on actuarial movement	*24*	**(26)**	10
		(37)	7

The headline UK corporation tax rate was 20% up until 1 April 2017, when it reduced to 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of these rate reductions has been reflected in the deferred tax balances in the financial statements. There are not considered to be any other known items which would materially affect the future tax charge.

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

18 Retirement benefit obligations

The Group has applied the requirements of the standard IAS 19 'Employee Benefits (Revised 2011)' ('IAS 19R') for the year ended 31 December 2018.

LHR Airports Limited, which is an indirect subsidiary of HAH Group, 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. Following the decision of the directors in 2015 to re-assess the Group's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Group, should act as principal in relation to these schemes. As a result, the Group now recognises retirement benefit obligations within its financial statements.

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

LHR Airports Limited operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group has no further payment obligations once the contributions have been paid. The total cost of defined contribution pension arrangements is fully expensed as employment costs.

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

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

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

Income statement - pension and other pension related liabilities costs

	31 December 2018 £m	31 December 2017 £m
Employment costs:		
Defined contribution schemes	**13**	10
BAA Pension Scheme	**34**	29
	47	39
Finance charge - BAA Pension Scheme	**3**	1
Finance charge - Other pension and post retirement liabilities	**1**	-
Total pension costs	**51**	40

18 Retirement benefit obligations *continued*

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

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
BAA Pension Scheme	**141**	(65)
Unfunded schemes	**3**	1
Actuarial gain /(loss) recognised before tax	**144**	(64)
Tax (charge)/credit on actuarial loss	**(26)**	10
Actuarial gain/(loss) recognised after tax	**118**	(54)

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

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

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of plan assets	**3,869**	4,085	3,975	3,288	3,274
Benefit obligation	**(3,841)**	(4,209)	(4,054)	(3,184)	(3,473)
Surplus/(deficit) in BAA Pension Scheme	**28**	(124)	(79)	104	(199)
Unfunded pension obligations	**(28)**	(29)	(29)	(22)	(23)
Post-retirement medical benefits	**(4)**	(5)	(6)	(6)	(6)
Deficit in other pension related liabilities	**(32)**	(34)	(35)	(28)	(29)
Net (deficit)/surplus in pension schemes	**(4)**	(158)	(114)	76	(228)
Group share of net (deficit)/surplus in pension schemes	**(4)**	(158)	(114)	76	(228)

(a) BAA Pension Scheme

The BAA Pension Scheme is a funded defined benefit scheme with both open and closed sections. The Scheme closed to employees joining the Group after 15 June 2008. The Scheme's assets are held separately from the assets of the HAH Group and are administered by the trustee.

The value placed on the Scheme's obligations as at 31 December 2018 is based on the full actuarial valuation carried out at 30 September 2015. This has been updated at 31 December 2018 by KPMG LLP to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 December 2018. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

Bulk Purchase Annuity Policy

On 24 May 2018, the BAA Pension scheme entered into an insurance annuity contract with Legal and General in respect of a proportion of its current pensioners. The annuity policy is recognised as a plan asset with a value equal to the value of the underlying obligations

Guaranteed Minimum Pension ('GMP') Equalisation

A past service cost of £5.3 million has been recognised in the income statement, reflecting an estimate of the impact of allowing for the equalization of GMPs. This follows a case brought before the High Court by the Trustees of the Lloyds Bank Pension Schemes, judgement of which was delivered on October 2018.

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

Analysis of movements in plan assets and defined benefit obligations

	2018 £m	2017 £m
Fair value of plan assets at 1 January	**4,085**	3,975
Income statement:		
Interest income on plan assets	**103**	108
Administration costs	**(3)**	(3)
Other comprehensive income:		
Remeasurement (loss)/gain (return on assets in excess of interest income on plan assets)	**(212)**	75
Loss due to Bulk Purchase Annuity	**(23)**	-
Cash flows:		
Employer contributions (including benefits paid and reimbursed)	**48**	50
Members' contributions	**5**	5
Benefits paid (by fund and Group)	**(134)**	(125)
Fair value of plan assets at 31 December	**3,869**	4,085
Defined benefit obligation at 1 January	**(4,209)**	(4,054)
Income statement:		
Current service cost	**(26)**	(26)
Past service cost	**(5)**	-
Interest cost	**(106)**	(109)
Other comprehensive income:		
Re-measurements of defined benefit obligation:		
arising from changes in financial assumptions	**376**	(140)
Cash flows:		
Members' contributions	**(5)**	(5)
Benefits paid (by fund and Group)	**134**	125
Defined benefit obligation at 31 December	**(3,841)**	(4,209)

The net actuarial gain before tax of £141 million (2017: £65 million net loss) resulted from a gain in change in assumptions of £376 million (2017: £140 million loss), partially offset by the asset loss of £235 million over the year, which includes a £23 million loss due to the Bulk Purchase Annuity transacted in Q2 (2017: £75 million return on assets in excess of the income statement credit).

The actuarial gain on change in financial assumptions is mainly attributable to an increase in the net yield of 0.45% over the year, based on a single equivalent discount rate assumption of 3.00% and an RPI inflation assumption of 3.40%. The discount rate used has increased from 2.55% in 2017 to 3.00% in 2018 and is derived from the yield on 'high quality corporate bonds' of duration consistent with liabilities of the scheme. The discount rate is based on a full yield curve approach, a 'single agency' approach where the yield curve is constructed from the Merrill Lynch corporate bond universe with at least one AA rating from the main ratings agencies. There were no changes attributable to demographic assumptions.

Analysis of fair value of plan assets

	31 December 2018 £m	31 December 2017 £m
Fair value of plan assets[1]		
Equity	**607**	540
Property	**139**	172
Bonds	**1,127**	1,405
Cash	**118**	59
Liability driven investment	**1,152**	1,579
Other	**726**	325
Total fair value of plan assets	**3,869**	4,085

[1] Included in the fair value of plan assets above is £958 million (24.8%) valued at publicly quoted market price.

At 31 December 2018, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,152 million (30% of the asset holding at 31 December 2018). The purpose of the Scheme entering into this

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

mandate is to reduce asset/liability mismatch risk. At 31 December 2017, the largest single category of investment was an LDI mandate, with value of £1,579 million (39% of the asset holding at 31 December 2017).

LDI holdings are portfolios of interest rate and inflation derivatives which are intended to protect the Scheme from movements in interest rates and inflation, so that the fair value of this element of the portfolio moves in the same way as the fair value of Scheme's obligations.

Analysis of financial assumptions

The financial assumptions used to calculate Scheme assets and liabilities under IAS 19R were:

	31 December 2018 %	31 December 2017 %
Rate of increase in pensionable salaries	**1.90**	1.90
Increase to deferred benefits during deferment	**2.65**	2.65
Increase to pensions in payment:		
Open section	**3.30**	3.30
Closed section	**3.40**	3.40
Discount rate	**3.00**	2.55
Inflation assumption	**3.40**	3.40

The assumptions relating to longevity underlying the pension liabilities at the reporting date are in line with those adopted for the 2015 actuarial funding valuation and are based on standard actuarial mortality tables with an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 27.2 years (2017: 27.1 years) and 29.5 years (2017: 29.4 years) from age 60 for a 40 year old male non-pensioner.

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.

Interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

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

Sensitivity analysis of significant assumptions

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

The standard market practice is to include sensitivity to a change of between 0.1% and 1%. Therefore 0.5% is considered to be reasonable and in line with market practice.

The range of long term inflation and long dated AA bonds over 2018 were c.0.2% and 0.4% respectively, so the choice of 0.5% is deemed to be acceptable as pension sensitivities are aligned to historical trends.

	31 December 2018 (Decrease)/increase in defined benefit obligation	
	Before tax £m	**After tax £m**
Discount rate		
+0.50% discount rate	**(368)**	**(302)**
-0.50% discount rate	**426**	**350**
Inflation rate		
+0.50% inflation rate	**345**	**283**
-0.50% inflation rate	**(309)**	**(254)**
Mortality		
Increase in life expectancy by one year	**134**	**110**

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

18 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

Sensitivity analysis of significant assumptions *continued*

The total contributions by the Company to the defined benefit pension scheme in 2019 are expected to be £48 million. The levels of contributions are based on the current service costs and the expected cash flows of the defined benefit pension scheme. The Company estimates the present value of the duration of the Scheme liabilities on average fall due over 21 years (2017: 21 years).

Management believes that the scheme has no significant plan specific or concentration risks.

(b) Other pension and post-retirement liabilities

LHR Airports Limited also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the Scheme rules. The unfunded pension obligations amount to £28 million (2017: £29 million) and are included in the statement of financial position.

In addition, LHR Airports Limited provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement is £4 million (2017: £5 million) and this is also included in the statement of financial position. The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

19 Provisions

	Reorganisation costs £m	Home loss payments £m	Other £m	Total £m
Non-current	-	7	2	9
Current	6	-	-	6
1 January 2018	**6**	**7**	**2**	**15**
Utilised	(5)	-	-	(5)
Charged to income statement	6	-	-	6
Released to income statement	(1)	-	-	(1)
31 December 2018	**6**	**7**	**2**	**15**
Non-current	-	-	2	2
Current	6	7	-	13
31 December 2018	**6**	**7**	**2**	**15**

Reorganisation costs

These are costs associated with the Company's reorganisation programmes primarily relating to restructuring processes designed to reduce the size and costs of overhead functions. The utilisation and release of the provision relates to the 2017 voluntary severance scheme in engineering and baggage operational areas. The charge relates to a provision established in 2018 for voluntary severance in Airport Operations and Security. The provision will be fully utilised in 2019.

Home loss payment

Between 2005 and 2011, the Company entered into a number of agreements to buy residential properties in the original third runway blight area. The purchase price for these properties included a deferred 10% payment ("deferred payment") which will be settled in cash when planning consent is obtained, expected to be around 2021. In October 2016, the Government announced its decision in favour of expansion at Heathrow and following board approval, a public statement was issued by the Company stating its intention to apply for planning consent, making it probable that the Company will be required to pay the deferred payment in the future. As a result, in the year ended 31 December 2016, the Company created a provision for the deferred payment equal to the amount it expects to pay of £7 million which is expected to be utilised in 2019.

Other

These provisions relate to insurance claims liability from incidents which occurred at Heathrow airport and are not expected to be paid within the next twelve months.

20 Trade and other payables

	31 December 2018 £m	31 December 2017 £m
Non-current		
Other payables	**8**	9
	8	9
Current		
Deferred income	**49**	33
Trade payables[1]	**179**	180
Other tax and social security	**8**	8
Other payables[2]	**40**	23
Capital payables	**135**	134
	411	378

[1] Trade payables are non-interest bearing and are generally on 30-day terms.
[2] Other payable include £17m of unpaid dividends.

21 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of £0.0024 each		
At 31 December 2017 and 2018	5,459,866,405	**13,103,679**
Deferred ordinary shares of £0.10 each		
At 31 December 2017 and 2018	1,350	**135**
Called up, allotted and fully paid		
Ordinary shares of £0.0024 each		
At 31 December 2017 and 2018	5,459,866,405	**13,103,679**
Deferred ordinary shares of £0.10 each		
At 31 December 2017 and 2018	1,350	**135**

Deferred ordinary shares rank below ordinary shares and the holders are not entitled to receive dividends from the Company, nor to attend or vote at any general meeting of the Company.

22 Share premium reserve

	£m
31 December 2017 and 31 December 2018	1,411

23 Other reserves

	Cash flow hedge reserve £m	Equity investment reserve £m	Total £m
1 January 2017	(358)	14	(344)
Fair value gains taken to equity	(140)	(1)	(141)
Transferred to income statement	173	-	173
Deferred tax on fair value gains	(5)	-	(5)
31 December 2017	**(330)**	**13**	**(317)**
Fair value losses taken to equity	**(210)**	**-**	**(210)**
Transferred to income statement	**276**	**-**	**276**
Deferred tax on fair value gains	**(11)**	**-**	**(11)**
31 December 2018	**(275)**	**13**	**(262)**

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

	31 December 2018			31 December 2017		
	Before tax £m	**Tax credit/ (charge) £m**	**After tax £m**	Before tax £m	Tax credit/ (charge) £m	After tax £m
Continuing operations						
Equity investments						
Loss taken to equity	**-**	**-**	**-**	(1)	-	(1)
Cash flow hedges						
Losses taken to equity	**(210)**	**36**	**(174)**	(140)	24	(116)
Transferred to income statement	**276**	**(47)**	**229**	173	(29)	144
Actuarial gain/(loss) (Note 18)						
Actuarial gain/(loss) on pensions	**144**	**(26)**	**118**	(64)	10	(54)
Tax relating to indexation of operational land	**-**	**-**	**-**	-	2	2
Other comprehensive income/(loss)	**210**	**(37)**	**173**	(32)	7	(25)

25 Retained earnings

	2018 £m	2017 £m
1 January as previously stated	**(185)**	(97)
Adjustment in respect of IFRS 9 and IFRS 15	**(3)**	-
1 January restated	**(188)**	(97)
Consolidated profit for the year	**381**	486
Tax relating to indexation of operational land	**-**	2
Actuarial gain/(loss) on pensions (Note 18)	**144**	(64)
Tax (charge)/credit on actuarial movement	**(26)**	10
Dividends declared (Note 5)	**(500)**	(525)
Release of unpaid dividend creditor	**-**	3
31 December	**(189)**	(185)

26 Commitments and contingent liabilities
Non-cancellable operating lease commitments – Group as a lessee
Total future minimum rentals payable as at the year end are as follows:

	31 December 2018		31 December 2017	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other Restated £m
Within one year	**14**	**38**	13	28
Within two to five years	**41**	**166**	44	132
After five years	**5**	**503**	5	485
	60	**707**	62	645

The Group leases various offices, warehouses, plant and machinery under non-cancellable operating lease agreements.

A significant portion of the commitments classified as 'other' relate to the 'UKPNS Lease'. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UKPNS, as neither the Group nor UKPNS are able to split the base fee between a 'capital' and 'maintenance' charge. This is because the component parts within the distribution network will be replaced throughout the arrangement.

In the prior year, the disclosure of the UKPNS Lease commitment was discounted at the Group's incremental borrowing rate as the estimated future cashflow included the year on year expected change in RPI. This approach was adopted as, due to the unusual and long-term nature of the lease, management believed it better represented the present value of the expected total cost of the lease. In the current year, the total commitment under the lease reflects the undiscounted cash flow and exclude the expected future RPI impact to more closely align with the requirements of IAS 17. The 2017 disclosure is restated accordingly.

Commitments total have increased from £655 million in 2017 to £707 million in 2018 mainly due to a new lease with First Great Western Limited signed on 17 April 2018 to replace the Heathrow Express trains owned by the group with new trains from First Great Western Limited.

Non-cancellable operating lease commitments – Group as a lessor
Total future minimum rentals receivable as at the year end are as follows:

	2018	2017
	Land and buildings	Land and buildings
	£m	£m
Within one year	**88**	95
Within two to five years	**225**	243
After five years	**1,698**	1,711
	2,011	2,049

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

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

Group commitments for property, plant and equipment

	31 December 2018	31 December 2017
	£m	£m
Contracted for, but not accrued:		
Baggage systems	**77**	155
Terminal restoration and modernisation	**174**	101
IT projects	**20**	21
Capacity optimisation	**20**	23
Other projects	**35**	23
	326	323

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. Capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 was £2.9 billion (excluding expansion related costs). The Q6 capital programme was primarily focussed on maintenance and compliance related projects, together with sustaining and improving the passenger experience. Capital spend in 2019 is forecast to be in the region of £700 million (excluding expansion related costs).

Other commitments
Heathrow Airport Limited has a commitment to pay £77 million to the Department for Transport in relation to the Crossrail project in return for a service commitment for Crossrail to operate services to Heathrow for 15 years, with payment expected during 2019. The amount will be included as an intangible asset in the financial statements and will be added to the RAB in accordance with the Q6 regulatory settlement.

Following the Government decision in October 2016 for Heathrow as preferred option for expansion, the Company recognises that up to 62 residential property owners could exercise their right under the previous scheme for which bonds were issued, to redeem those bonds at some point in the future. The Company's best estimate of the total payment is £21 million based on a valuation in accordance with the terms set out in the bond contract and assumes all 64 bondholders will exercise their option to sell. 2 houses were purchased in 2018 for a total cost of £1 million.

Following the designation of the Airports National Policy Statement on 26th June 2018, Heathrow has signed a Blight indemnification agreement with the Department for Transport, such that the Company will take responsibility for any successful claims for statutory blight of residential property under certain conditions. During the time between NPS designation and DCO consent is achieved, it is estimated that between 5% and 25% of the total eligible population may serve successful Blight notices. This would result in Heathrow's obligation to purchase properties at an estimated cost between £11m to £53m (based on expected 5%-25% take-up respectively). The cost includes an unaffected market value of the property plus 25% home loss payment and other costs. If all the relevant residential property owners were to submit a valid Blight claim, the Company's best estimate of the total payment is £212 million. It is expected that the cost of purchased properties will be added to the RAB.

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £1 million at 31 December 2018 (2017: £1 million).

27 Note to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from continuing operations

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Operating activities			
Profit before tax		**454**	583
Adjustments for:			
Fair value gain on financial instruments	*3b*	**(15)**	(203)
Finance costs	*3a*	**770**	836
Finance income	*3a*	**(4)**	(5)
Fair value gain on investment properties	*1*	**(117)**	(149)
Depreciation	*2*	**720**	654
Amortisation	*2*	**32**	44
Increase in inventories		**(2)**	-
Increase in trade and other receivables		**(51)**	(9)
Increase in trade and other payables		**15**	15
Decrease in provisions		**-**	(7)
Difference between pension charge and cash contributions		**(15)**	(22)
Cash generated from continuing operations		**1,787**	1,737

[1] Prior year finance income and finance costs have been restated by (£196) million and £196 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as net through finance cost.

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

	1 January 2018 £m	Cash flow £m	Transfers from non-current to current £m	Other non-cash changes[1] £m	31 December 2018 £m
Cash and cash equivalents	**541**	**97**	**-**	**-**	**638**
Term deposits	**12**	**108**	**-**	**-**	**120**
Current debt	**(1,098)**	**1,042**	**(529)**	**76**	**(509)**
Non-current debt	**(13,116)**	**(1,452)**	**529**	**(21)**	**(14,060)**
Net debt	**(13,661)**	**(205)**	**-**	**55**	**(13,811)**

	1 January 2017 £m	Cash flow £m	Transfers from non-current to current £m	Other non-cash changes[1] £m	31 December 2017 £m
Cash and cash equivalents	307	234	-	-	541
Term deposits	380	(368)	-	-	12
Current debt	(1,217)	1,157	(1,069)	31	(1,098)
Non-current debt	(13,125)	(1,119)	1,069	59	(13,116)
Net debt	(13,655)	(96)	-	90	(13,661)

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

28 Related party transactions

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

	Sales to related party		Purchases from related party		Amounts owed by related party		Amounts owed to related party	
Related party	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Amey OWR Ltd	**-**	-	**1**	2	**-**	-	**-**	-
Ferrovial	**-**	-	**2**	2	**-**	-	**-**	-
Ferrovial Agroman	**-**	-	**69**	61	**-**	-	**-**	-
Harrods International Limited	**23**	23	**-**	-	**-**	-	**-**	-
Qatar Airways	**35**	35	**-**	-	**2**	2	**-**	-
QS Airports UK, LP	**-**	-	**-**	-	**-**	-	**17**	-
	58	58	**72**	65	**2**	2	**17**	-

The related parties above are related through ownership by the same parties. Related party transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arms-length basis.

29 Parent undertaking and controlling party

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion; 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 GIC), QS Airports UK, LP (11.18%) (investment vehicle 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).

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

30 Subsidiaries

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

Direct Subsidiaries:
ADI Finance 1 Limited

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

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

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

The registered office of the Company's subsidiaries is as per Note 29, with the exception of Heathrow Funding Limited whose registered office is 13 Castle Street, St Helier, Jersey, JE5 5UT, Channel Islands.

31 Subsequent events

On 29 January 2019, we issued an irrevocable redemption notice for our 2019 Heathrow Finance plc high yield bond, with the redemption date not less than 30 day and not more than 60 days after notice of redemption.

On 20 February 2019, the Board approved the payment of a £100 million dividend to the Shareholders.

FGP Topco Limited

Statement of financial position as at 31 December 2018

	Note	31 December 2018 £m	31 December 2017 £m
Assets			
Non-current assets			
Investment in subsidiary	2	**699**	699
		699	699
Current assets			
Trade and other receivables	3	**2,545**	2,648
Cash and cash equivalents		**17**	-
Total current assets		**2,562**	2,648
Total assets		**3,261**	3,347
Liabilities			
Non-current liabilities			
Trade and other payables	4	**(122)**	(122)
Current liabilities			
Trade and other payables	4	**(20)**	-
Total liabilities		**(142)**	(122)
Net assets		**3,119**	3,225
Capital and reserves			
Called up share capital	5	**13**	13
Share premium reserve	6	**1,411**	1,411
Profit and loss reserve	7	**1,695**	1,801
Total shareholders' funds		**3,119**	3,225

The profit of the Company for the year attributable to shareholders was £394 million (2017: £23 million).

These financial statements of FGP Topco Limited (Company registration number: 05723961) were approved by the Board of Directors and authorised for issue on 26 February 2019. They were signed on its behalf by:

Jorge Gil Villen
Director

Olivier Fortin
Director

Accounting policies for the year ended 31 December 2018

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

Basis of preparation
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment in subsidiary in accordance with the Companies Act 2006 and applicable accounting standards. They have been prepared by the directors in accordance with FRS 101.

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

The Company has taken advantage of certain disclosure exemptions in FRS 101 as its financial statements are included in the publicly available consolidated financial statements of the Group. As such, the Company is exempt from presenting the Statement of cashflows and from the disclosures requirement to show related party transactions with entities that are wholly owned subsidiaries of the Company. In addition, the Company has also taken advantage of disclosure exemption of the income statement as allowed by the Companies Act. Copies of those consolidated financial statements may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

The Company is not a financial institution and is therefore able to take advantage of exemption from all requirements of, IFRS 7 'Financial Instruments, IFRS 13 'Fair Value Measurement', IFRS 15 'Revenue from Contracts with Customers', IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The Group adopted IFRS 9 and IFRS 15 in accordance with IFRSs as issued by the IASB and this adoption has no material impact on entity financial statements.

We consider that the disclosures required in the statement of changes in equity are satisfied by Notes 1,5, 6 and 7.

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 'HAH Group'), has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the HAH Group, the level at which financial risks are managed for the Company.

Consequently the Directors have reviewed the cash flow projections of the HAH Group taking into account:
- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall HAH Group liquidity position, including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and its ability to access the debt markets.

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

Interest
Interest payable and interest receivable are recognised in the income statement in the period in which they are incurred.

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

Intercompany loans receivable
Intercompany advances to other Group entities are all held till maturity, neither parties have an option to call or prepay the loan before the contracted maturity date.

Such assets are held under a business model to hold and collect contractual cash flows and therefore meet the SPPI test. No embedded derivatives are currently recognised in these advances, and the amortised cost classification is not impacted. All intercompany advances are assessed for impairment under the IFRS 9 "expected credit losses model" (ECL).

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

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

Current taxation
The tax expense for the year comprises current tax. Tax is recognised in the income statement.

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

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

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

Significant accounting judgements and estimates for the year ended 31 December 2018

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

Critical judgements in applying the Company's accounting policies

There are no critical judgments for the Company.

Key sources of estimation uncertainty

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

Notes to the Company financial statements for the year ended 31 December 2018

1 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £394 million (2017: £23 million).

2 Investment in subsidiary

	£m
Cost	
1 January 2018 and 31 December 2018	**699**

The Company's subsidiary undertaking is ADI Finance 1 Limited, a company incorporated in Great Britain and registered in England and Wales.

Details of the subsidiary undertakings of the Group have been provided in Note 30 of the FGP Topco Limited consolidated financial statements.

3 Trade and other receivables

	31 December 2018 £m	31 December 2017 £m
Due after more than one year		
Interest owed by group undertakings	**279**	268
Amounts owed by group undertakings – interest bearing[1]	**2,266**	2,380
Total trade receivables	**2,545**	2,648

[1] Amounts owed by group undertakings – interest bearing relates to a loan made to its subsidiary, ADI Finance 1 Limited. The loan carries a floating interest rate based on 3-month Libor plus a margin of 0.5%, with a maturity date of June 2026.

All intercompany advances are assessed for impairment under the IFRS 9 "expected credit losses model" (ECL). Management has considered the cash flow forecasts for the remaining term of the loan and believes ADI Finance 1 Limited to have sufficient resources to meet its obligations. Consequently, Management has determined that the loan is low risk and falls within 'Stage 1' of IFRS 9's impairment model, and 12 month ECL can be calculated.

The ECL calculated as at 31 December 2018 is £2.7 million (2017: £2.9 million). Management has concluded that this amount is immaterial and has not recognised a provision in the entity financial statements.

4 Trade and other payables

Non-current	**31 December 2018 £m**	31 December 2017 £m
Amounts owed to group undertakings[1]	**122**	122
Current		
Other payables[2]	**17**	-
Group relief payable	**3**	-
Total trade and other payables	**20**	-

[1] Amounts owed to group undertakings mainly represent amounts of group tax relief payable to ADI Finance 1 Limited. The amount outstanding is on an interest free basis.

[2] Other payables consist of unpaid dividends.

5 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of £0.0024 each		
At 31 December 2017 and 2018	**5,459,866,405**	**13,103,679**
Deferred ordinary shares of £0.10 each		
At 31 December 2017 and 2018	**1,350**	**135**
Called up, allotted and fully paid		
Ordinary shares of £0.0024 each		
At 31 December 2017 and 2018	**5,459,866,405**	**13,103,679**
Deferred ordinary shares of £0.10 each		
At 31 December 2017 and 2018	**1,350**	**135**

Deferred ordinary shares rank below ordinary shares and the holders are not entitled to receive dividends from the Company, nor attend or vote at any general meeting of the Company.

6 Share premium reserve

	£m
31 December 2017 and 2018	**1,411**

7 Profit and loss reserve

	£m
31 December 2017	**1,801**
Profit for the financial year	**394**
Dividends paid	**(500)**
31 December 2018	**1,695**

8 Dividends

The Group's shareholders received a total of £500 million in dividends during 2018 (2017: £525 million).

9 Auditor's remuneration

The Company's auditor received £30,000 (2017: £36,000) as remuneration for the audit of the Company's financial statements, the cost of which was borne by Heathrow Airport Limited.

10 Employee information and directors' remuneration

Employee numbers

The Company had no employees (2017: none).

Directors' remuneration

None of the directors (2017: none) who served during the year ended 31 December 2018 received any emoluments from the Company.

During the year, none of the directors (2017: none) had retirement benefits accruing to them under a defined benefit or defined contribution pension scheme.

None of the directors (2017: none) exercised any share options during the year in respect of their services to the Company and no shares (2017: none) were received or became receivable under long term incentive plans.

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

Notes to the Company financial statements for the year ended 31 December 2018 *continued*

11 Ultimate parent undertaking and controlling party

The Company is the ultimate parent entity and the parent undertaking of the smallest and largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion; 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 GIC), QS Airports UK, LP (11.18%) (investment vehicle 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).

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12 Subsequent events

On 29 January 2019, we issued an irrevocable redemption notice for our 2019 Heathrow Finance plc high yield bond, with the redemption date not less than 30 day and not more than 60 days after notice of redemption.

On 20 February 2019, the Board approved the payment of a £100 million dividend to the Shareholders.

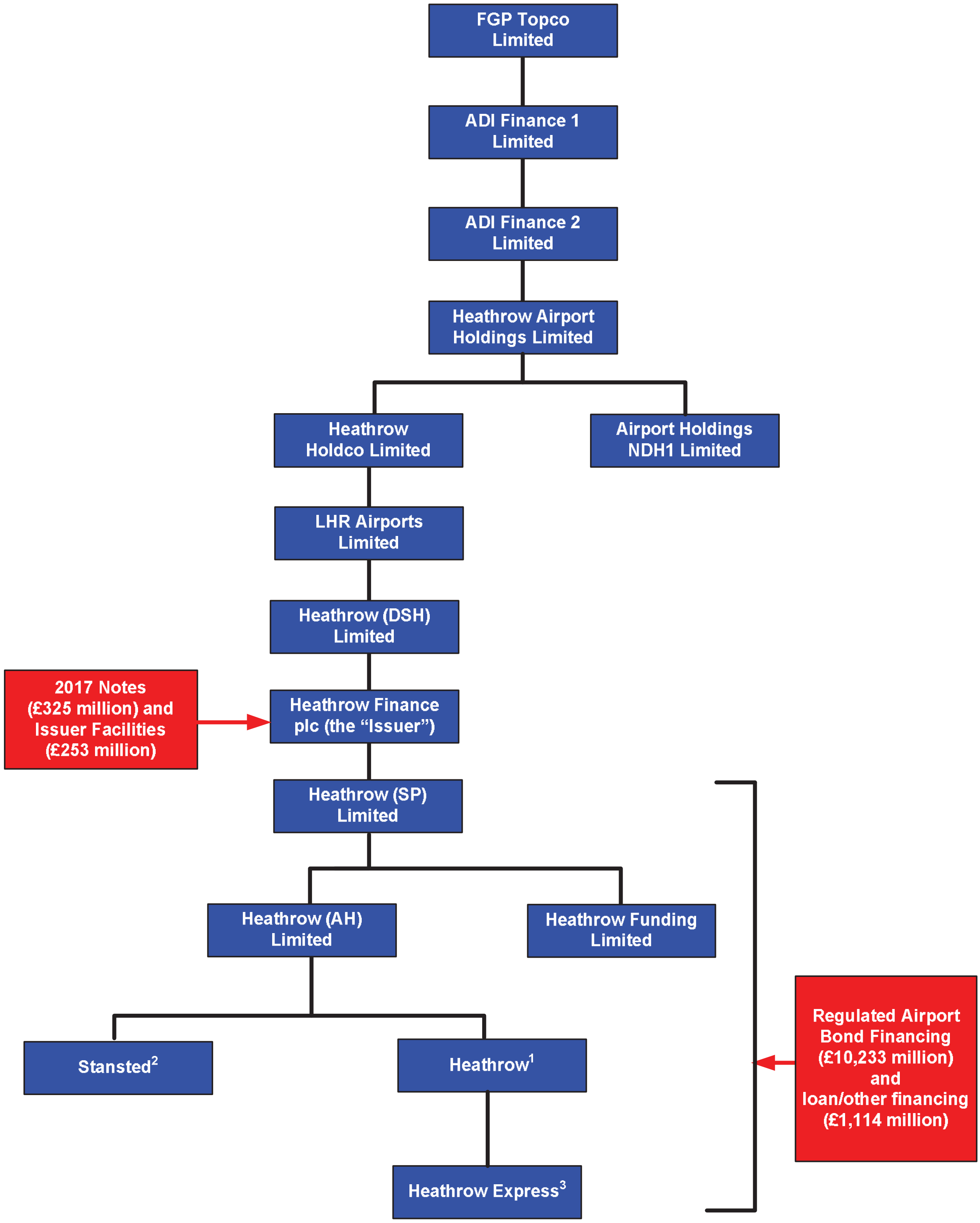
Registered office

FGP Topco Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW

Registered in England Number: 05723961

CORPORATE AND FINANCING STRUCTURE

The following chart summarises the Group's corporate and financing structure as at the date of this Prospectus. All of the entities are wholly owned. Debt amounts are as at 30 September 2012.



Heathrow = Heathrow Airport Limited
Stansted = Stansted Airport Limited
Heathrow Express = Heathrow Express Operating Company Limited