LHR Airports Limited
Annual report and financial statements for the year ended 31 December 2013

Company registration number: 01970855

LHR Airports Limited

Contents

LHR Airports Limited

Officers and professional advisers

Directors
Ian Ballentine
Normand Boivin
Neil Clark
Emma Gilthorpe
Clare Harbord
John Holland-Kaye
Carol Hui
José Leo
Jim O'Sullivan
Paula Stannett

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

Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Bankers
The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

LHR Airports Limited

Strategic Report

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

Principal activities, review of 2013 and outlook
The Company is the parent company of Heathrow (DSH) Limited and an indirect holding company of Heathrow (SP) Limited, which is the parent company within a ring-fenced group that owns Heathrow airport ('Heathrow') and which additionally owns the company that operates the Heathrow Express rail link between Heathrow and Central London. The principal activity of the Company is to act as a service provider for the four airports (the 'Airports') owned and operated by the Heathrow Airport Holdings Group. The Executive Committee, Board and Audit Committee ('AC') referred to in these financial statements relate to the Executive Committee, Board and AC of Heathrow Airport Holdings Limited.

The Company employs all staff involved in running the operational activities of the Airports and also provides some corporate and centralised services to the Airports through Shared Services Agreements ('SSA'), although some of these activities are now performed by Heathrow Airport Limited.

This strategic report is presented in three sections:
Management review – review of the year ended 31 December 2013, along with the outlook.
Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2013 and analysis of the financial position of the Company as at that date.
Internal controls and risk management – outline of the Heathrow Airport Holdings Group's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the Heathrow Airport Holdings Group Executive Committee.

Management review
Review of 2013
Key features of the year
2013 saw a minor change in the reported results of the Company in respect of turnover and operating costs. Prior to 2013, the Company incurred employment costs, IT costs and other operating costs of Heathrow and the Airports Division, which consists of Aberdeen, Glasgow and Southampton airports. These costs were charged to the respective airports and reported as turnover. In 2013, although the contractual relationships existed between LHR Airports and its employees and contractors, employment costs for Heathrow and the Airports Division were incurred directly. Having considered the guidance of the revenue recognition application note FRS 5, LHR Airports Limited no longer acts as principal for certain transactions but acts as agent and therefore it is no longer the case that the respective costs should be reported as turnover and operating costs in LHR Airports Limited. Further details of this change are given in the basis of preparation, Turnover on page 16, and in the Turnover section within the Financial Review.

Regulatory and governmental developments
Heathrow's development for the next five years
The next regulatory period ('Q6') for economic regulation of Heathrow began on 1 April 2014. Following constructive engagement with airlines, Heathrow proposed a five-year business plan in January 2013, which set out its operational and capital plan to continue the transformation of Heathrow, focusing on service delivery and improving the passenger experience, whilst delivering operating efficiencies and a fair return on investment. Following publication of the Business Plan, Heathrow has been engaged in the consultation process run by the CAA throughout 2013.

On 10 January 2014, the CAA gave notice of its proposed licence to Heathrow under the Civil Aviation Act 2012, under which the maximum allowable yield per passenger will be RPI minus 1.5% per year (RPI minus 1.2% per year on a five-year adjusted basis), with an assumed capital plan of £2.81 billion (£2.95 billion on a five-year adjusted basis). In addition, the duration of the next regulatory period has been amended to four years and nine months, to align the regulatory year with Heathrow's financial year.
On 13 February 2014, the CAA formally granted Heathrow's licence to charge fees for the provision of airport services and this has taken effect from 1 April 2014, when the previous regulatory settlement ended.

Airports Commission
At the end of 2012 the UK government established the Airports Commission, chaired by Sir Howard Davies. The Airports Commission was tasked with examining the requirement for additional airport capacity to maintain the UK's position as Europe's most important aviation hub. On 17 July 2013, Heathrow submitted three third runway options for the Airports Commission to consider. The options were located to the north west, south west or north of the existing airport.

On 17 December 2013, the Commission published its interim report on the steps needed to maintain the UK's global hub status. The Commission stated that there is a clear case for at least one net additional runway in London and the South East by 2030 and shortlisted potential sites for further analysis and assessment: 1) a 3,500 metre runway proposed by Heathrow to the north west of the airport; 2) a separate proposal by Heathrow Hub Limited to lengthen Heathrow's existing northern runway to 6,000 metres; and 3) a new runway at Gatwick Airport south of the existing runway. In addition, the Commission recommended short-term actions to improve the use of existing runway capacity in the next five years.

Management review *continued*

Review of 2013 *continued*

Airports Commission continued

Heathrow's north west third runway option would raise the capacity at Heathrow to 740,000 flights a year, from the current limit of 480,000. It would cater for up to 130 million passengers annually compared to 80 million today, allowing the UK to compete with international rivals and providing capacity for the foreseeable future and is designed to evolve to four runways if required.

The north west runway option is to the west of the short third runway proposal under the 2003 Air Transport White Paper. With a north west third runway there will be 15% fewer people within Heathrow's noise footprint in 2030 than today. This option maintains the principle of runway alternation to provide periods of respite from noise for all communities around Heathrow.

Construction of the new runway could be completed in six years with an estimated earliest operational date of 2026 at an estimated cost of £17 billion, of which £11 billion relates to airport infrastructure. The proposal is based on private funding of the core airport infrastructure, investment over approximately 15 years, on the basis of a regulatory regime that provides for appropriate returns to investors commensurate with risk. The remaining £6 billion comprises £2 billion of surface access costs and £4 billion of environmental or community costs, which may be more appropriately funded by Government.

The company welcomes the inclusion of Heathrow in the shortlist and is reviewing the detail of the Commission's report. Heathrow has begun working with local authorities, communities and other stakeholders to refine the runway option, including a first public consultation which started on 3 February. A refined proposal was submitted to the Airports Commission in May 2014. The Airports Commission is due to report its final findings in summer 2015, and has recently ruled out the proposed Inner Thames Estuary Airport.

Outlook

The Company continues to employ all staff involved in running the operational activities of the Airports and also will continue to provide some corporate and centralised services to the Airports through Shared Services Agreements ('SSA'). In addition, the Company continues as an indirect holding company of Heathrow (SP) Limited, which is the parent company within a ring-fenced group that owns Heathrow and operates the Heathrow Express rail link between Heathrow airport and Central London.

Financial Review

Introduction

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Turnover	**479**	630
Operating costs – ordinary	**(482)**	(619)
Operating gain – exceptional	**74**	251
Operating profit	**71**	262
Net interest receivable and similar income	**633**	602
Fair value gain on financial instruments	**12**	20
Other income	**698**	388
Profit on ordinary activities before taxation	**1,414**	1,272
Tax credit/(charge) on profit on ordinary activities	**124**	(149)
Profit on ordinary activities after taxation	**1,538**	1,123

Strategic Report *continued*

Financial Review *continued*

Turnover

Turnover decreased 24% to £479 million (2012: £630 million). In 2013, turnover was derived solely from recharging the airports (Heathrow, Aberdeen, Glasgow and Southampton) for central support services. In 2012, the Company incurred employment costs for all the airports and then recharged these back to the respective airport entities. Payroll costs were still borne by the Company in 2013 and subsequently recharged. The main reason for the reduction in turnover from 2012 to 2013 was because of the reduction in headcount due to the disposal of Stansted airport. In previous years the company was judged to act as a principal in exchange transactions, in accordance with the accounting standard FRS 5 *Reporting the Substance of Transactions*, but in 2013, following changes to the way costs are recharged in the group it was considered to be acting going forward (though it had not acted in this manner prior to that time) as an agent, as defined in FRS 5, in respect to some recharges of central costs to Heathrow and the Airports Division.

Operating costs – ordinary

Ordinary operating costs have fallen 22% to £482 million (2012: £619 million) for the year ended 31 December 2013. The reason for this movement is due to the Stansted airport disposal.

Exceptional operating gain

The exceptional operating gain has fallen to £74 million (2012: £251 million) for the year ended 31 December 2013. This credit reflects an increase in the amount receivable by the Company from the entities which are party to the SSAs due to movements in the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme ('UURBS') and Post-Retirement Medical Benefits ('PRM') pension-related liabilities.

Net interest receivable

Net interest receivable has increased 5% to £633 million (2012: £602 million) for the year ended 31 December 2013, in line with the intercompany receivable upon which interest accrues.

Fair value movements on financial instruments

A fair value gain of £12 million (2012: £20 million gain) on financial instruments has been recognised in the profit and loss account. The fair value gain is principally due to the increase in the underlying share price raising the value of equity swaps.

Other income

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

Tax

The Company has recorded a tax credit of £124 million (2012: £149 million charge). The tax credit is made up of £122m current tax credit and £2m deferred tax credit. The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. As a result, the Company's deferred tax balances, which were previously provided at 23%, have been re-measured at a rate of 20% in the year ended 31 December 2013.

Pension scheme

At 31 December 2013, the LHR Airports Limited defined benefit pension scheme (or 'BAA Pension Scheme') had a deficit of £93 million as measured under FRS 17. This compares with a deficit of £103 million at 31 December 2012. The slight decrease in the deficit is mainly due to cash contributions and the commutation payment related to the sale of Stansted airport, offset by an increase in the assumed inflation rate applied to future scheme liabilities. The UURBS and PRM pension related liabilities had a deficit of £29 million at 31 December 2013 (2012: £30 million).

The trustees of the LHR Airports Limited defined benefit pension scheme and the Group concluded the pension scheme's 30 September 2010 triennial valuation in December 2011 and agreed a schedule of cash contributions of £97 million per annum (of which £24 million related to deficit reduction) that became effective from 1 January 2012. Following the disposal of Edinburgh airport, the schedule of cash contributions was reduced to £94 million per annum from January 2013 with a further reduction to £87 million from January 2014 following the sale of Stansted airport.

An actuarial loss of £74 million (2012: £211 million) is recorded in the Statement of Realised Gains and Losses. This loss is as a result of changes in assumptions in relation to the present value of the benefit obligation.

Internal controls and risk management

Internal control and risk management are centrally managed at the Heathrow Airport Holdings Limited group level (the 'Heathrow Airport Holdings Group'), which includes the Company. The Executive Committee, Board, Sustainability and Operational Risk Committee, Heathrow Finance Committee and Audit Committee ('AC') referred to below relate to the Executive Committee, Board, Sustainability and Operational Risk Committee, the Heathrow Finance Committee and AC of Heathrow Airport Holdings Limited.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Company and for reviewing the effectiveness of the system. This is implemented by applying the Heathrow Airport Holdings 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 Heathrow Airport Holdings Group's internal control and risk management systems in relation to the financial reporting process include:

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

In addition, the AC:

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

Risk management

Risk management is a key element of the Heathrow Airport Holdings Group's corporate operations. Risk is centrally managed for the Heathrow Airport Holdings Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to the Accounting policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely.

The Heathrow Airport Holdings Group's risk management process is used to facilitate the identification, evaluation and effective management of the threats to the achievement of the Heathrow Airport Holdings Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that day-to-day activities are managed effectively and all significant business decisions are risk-informed.

The risk management process is evidenced in risk registers which are used as the basis for regular review of risks and their management, up to Executive Committee level. The risk registers are also used to make informed decisions relating to the procurement of insurance cover. The risk management process also supports clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations.

The operation of the risk management process and the individual risk registers are subject to periodic review by the Heathrow Airport Holdings Group's Internal Audit function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

Strategic Report *continued*

Internal controls and risk management *continued*

Risk management *continued*

Assurance is provided through reports to the AC, the management reporting processes and a specialist compliance audit function which reports directly to the Sustainability and Operational Risk Committee.

The principal corporate and reputational risks as identified by the Executive Committee are:

Safety risks

Health and safety is a core value of the business and the Company actively promotes the role of safety leadership in creating a safety culture that is intolerant of accidents and incidents.

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

Security risks

Security risks are regarded as critical risks to manage throughout the Heathrow Airport Holdings Group. The Heathrow Airport Holdings Group mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company works closely with government agencies, including the police and the Border Force 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.

Regulatory environment, legal and other reputational risks

Civil Aviation Authority ('CAA') economic regulation

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

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

Competition rules

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

Capacity shortfall

Failure to secure necessary planning permissions could lead to the Heathrow Airport Holdings Group having insufficient capacity to meet the demands of the industry resulting in increased congestion. The UK government's policy on airport capacity changes has a significant influence on the Heathrow Airport Holdings Group's ability to secure necessary planning permissions and develop capacity. The Heathrow Airport Holdings Group mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in government consultations and other advisory groups. In addition, investment in additional capacity at the Heathrow airport will be partly dependent on an appropriate level of investment incentives being provided in future regulatory settlements.

Existing planning approvals provide for passenger traffic to grow to approximately 90 million per annum at Heathrow.

Environmental risks

Environmental risk is managed throughout the Heathrow Airport Holdings Group as it has the potential to impact negatively upon the Heathrow's reputation and jeopardise its licence to operate and to grow. The Heathrow Airport Holdings Group controls and mitigates these risks at a number of levels. Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established. The Heathrow Airport Holdings 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*

Commercial and financial risk management objectives and policies

Operational disruption

There are a number of circumstances that can pose short-term risks to the normal operations of Heathrow 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 the location of the airport. These conditions can have a particularly significant impact on an airport such as Heathrow where, due to operating close to full capacity, there is negligible spare capacity to utilise in recovering from some of the above conditions. Where possible the Heathrow Airport Holdings Group seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible.

Development

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

Opening a new Terminal

Opening a new airport terminal is a complex process that requires detailed planning and at Terminal 2 this is being managed through a seven month operational readiness phase, which began in November 2013, and includes fit-out, trials and training.

Operational readiness trials range from individual unit tests to end-to-end process trials involving large numbers of volunteers acting as passengers. The trials aim to ensure that the terminal is fit for purpose at every stage of the passenger journey from car park arrival, check-in, baggage drop and boarding through to arrivals and baggage reclaim. IT and baggage systems are being assured under proving trials. Change control processes are in place for covering the systems of Heathrow, the airlines and other key users of the terminal.

Risk to opening was further managed through a phased move of airlines into Terminal 2 over a six month period. The terminal opened with a single airline on 4 June and 36 flights on the first day of operation. This was followed by the start of a further phased transfer process planned to take six months for the remaining 25 airlines.

Changes in demand

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

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The Heathrow pay agreement reached in early 2011 established the pay structure for 2011, 2012 and 2013. A pay agreement has been reached with all three trade unions recognised by Heathrow for 2014 and 2015 that reduces the risk of industrial action in relation to pay, but talks are ongoing regarding changes to work practices to realise further changes for Q6 so some residual risk of industrial unrest remains. The Company could also be exposed in the short-term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers, baggage handlers and the Border Force.

Treasury

The Company's financial risk management objectives are aligned with its parent company, Heathrow Airport Holdings Limited, which is the parent undertaking of the smallest group to consolidate these financial statements and also with those of the Heathrow Finance plc group, the 'Heathrow Finance Group'. As the parent of Heathrow Finance plc, LHR Airports Limited shares its financial risks and management. The treasury policies of the Heathrow Finance Group are set out below.

The Board of Heathrow Airport Holdings Group 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.

Strategic Report *continued*

Internal controls and risk management *continued*

Commercial and financial risk management objectives and policies continued

Treasury continued

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 Heathrow Airport Holdings Group's business operations and funding. To achieve this, the Heathrow Airport Holdings 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 Heathrow Finance Group are:

(a) Interest rates
The Heathrow Finance Group maintains a mix of fixed and floating rate debt. As at 31 December 2013, fixed rate debt after hedging with derivatives represented 94% of the Heathrow Finance Group's total external nominal debt.

(b) Inflation
The Heathrow Finance 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 use of index-linked instruments.

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

The Heathrow Finance platform is rated BB+/Ba3 and supports both loan and bond debt.

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 Heathrow Finance Group is not exposed to excessive refinancing risk in any one year.

The Heathrow Finance Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under its revolving credit facilities. As at 31 December 2013, the Heathrow Finance Group's cash and cash equivalents were £96 million, undrawn headroom under revolving credit facilities was £2,095 million and undrawn headroom under liquidity facilities was £750 million.

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

On behalf of the Board

José Leo
Director

26 September 2014

Company registration number: 01970855

LHR Airports Limited

Directors' report

The Directors present their annual report and the audited financial statements for LHR Airports Limited (the 'Company') for the year ended 31 December 2013.

A review of the progress of the Company's business during the year, internal controls and risk management, principal business risks and likely future developments are contained in the Strategic report on page 2 to 8.

Results and dividends
The profit after taxation for the financial year amounted to £1,538 million (2012: £1,123 million).

Dividends of £688 million were paid during the year (2012: £363 million). The Company made quarterly dividends of £231 million to fund dividends to its ultimate shareholders. A further £300 million return was made to the Company's ultimate shareholders on their historic investment in Stansted airport following its disposal. The remaining £157 million related to the servicing of external debt at the Company's holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries.

The statutory results for the year are set out on page 13.

Directors
The Directors who served throughout the year and prior to the date these accounts are signed, except as noted, are as follows:

Ian Ballentine	Appointed 10 December 2013
Normand Boivin	
Neil Clark	
Emma Gilthorpe	
Clare Harbord	
John Holland-Kaye	
Carol Hui	
José Leo	
Fidel López	Resigned 1 September 2014
Colin Matthews	Resigned 30 June 2014
Terence Morgan	Resigned 1 November 2013
Jim O'Sullivan	
Paula Stannett	Appointed 28 January 2013
Fiona Rodford	Resigned 25 January 2013

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

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

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

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

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

Directors' report *continued*

Employment policies *continued*

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

Supplier payment policies

The Company complies with the UK government's Better Payment Practice Code which states that responsible companies should:

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

The Company had nine days of purchases outstanding at 31 December 2013 (2012: nineteen days) based on the average daily amount invoiced by suppliers during the year.

Directors' indemnity

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

Auditor

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

Statement of disclosure of information to the Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company 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.

On behalf of the Board

José Leo
Director

26 September 2014

Company registration number: 01970855

LHR Airports Limited

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

On behalf of the Board

José Leo
Director

26 September 2014

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

We have audited the financial statements of LHR Airports Limited for the year ended 31 December 2013 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Andrew J. Kelly FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

26 September 2014

LHR Airports Limited

Profit and loss account for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Turnover	*1*	**479**	630
Operating costs – ordinary	*2*	**(482)**	(619)
Operating gain – exceptional	*3*	**74**	251
Total operating costs		**(408)**	(368)
Operating profit		**71**	262
Interest receivable and similar income	*4*	**702**	675
Interest payable and similar charges	*4*	**(69)**	(73)
Fair value gain on financial instruments	*4*	**12**	20
Other income	*5*	**698**	388
Profit on ordinary activities before taxation		**1,414**	1,272
Tax credit/(charge) on profit on ordinary activities	*6*	**124**	(149)
Profit on ordinary activities after taxation	*18*	**1,538**	1,123

All profits or losses recognised during the current and prior year are from continuing operations.

[1] Comparative balances for the year ended 31 December 2012 have been restated following a change in accounting policy as explained in the accounting policies note

LHR Airports Limited

Statement of total recognised gains and losses for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Profit for the financial year	*18*	**1,538**	1,123
Deferred tax (charge) / credit on items transferred directly to equity[1]		**(11)**	36
Other net recognised losses relating to the year:			
Actuarial loss (gross of deferred tax)	*13*	**(74)**	(211)
Other loss		**(1)**	-
		(86)	(175)
Total recognised gains relating to the year		**1,452**	948

[1] This includes a deferred tax charge of £16 million (2012: £36 million credit) relating to retirement benefit obligations and unfunded pension scheme obligations.

Reconciliation of movements in shareholder's funds for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Profit for the financial year	*18*	**1,538**	1,123
Dividends paid	*18*	**(688)**	(363)
Other net recognised losses relating to the year:			
Actuarial loss (gross of deferred tax)	*13*	**(74)**	(211)
Deferred tax (charge) / credit on items transferred directly to equity[1]		**(11)**	35
Net movement in shareholder's funds		**765**	584
Opening shareholder's funds		**10,262**	9,678
Closing shareholder's funds		**11,027**	10,262

[1] This includes a deferred tax charge of £16 million (2012: £36 million credit) relating to retirement benefit obligations and unfunded pension scheme obligations.

LHR Airports Limited

Balance sheet as at 31 December 2013

	Note	31 December 2013 £m	31 December 2012 £m
Fixed assets			
Tangible assets	7	**2**	3
Investments	8	**5,459**	5,460
Total fixed assets		**5,461**	5,463
Current assets			
Debtors (including amounts due after more than one year of £8,599 million (2012: £7,959 million))	9	**9,193**	8,477
Cash at bank and in hand	10	**8**	33
Total current assets		**9,201**	8,510
Current liabilities			
Creditors: amounts falling due within one year	11	**(613)**	(1,556)
Net current assets		**8,588**	6,954
Total assets less current liabilities		**14,049**	12,417
Creditors: amounts falling due after more than one year	12	**(2,882)**	(2,026)
Provisions for liabilities and charges	14	**(24)**	(3)
Net assets (excluding pension balances)		**11,143**	10,388
Retirement benefit obligation	13	**(93)**	(103)
Other pension and post-retirement benefit obligations	13	**(23)**	(23)
Net assets		**11,027**	10,262
Capital and reserves			
Called up share capital	15	**1,567**	1,567
Share premium reserve	16	**325**	325
Other reserves	17	**53**	48
Profit and loss reserve	18	**9,082**	8,322
Total shareholder's funds		**11,027**	10,262

The financial statements of LHR Airports Limited (Company registration number: 01970855) were approved by the Board of Directors and authorised for issue on 26 September 2014. They were signed on its behalf by:

José Leo
Director

John Holland-Kaye
Director

Accounting policies for the year ended 31 December 2013

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

Basis of preparation
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and financial instruments, in accordance with applicable Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

Changes in accounting policies
Following a review of accounting policies it was considered appropriate to amend the presentation of the Group's share of the net of the interest cost and the expected return on assets relating to the LHR Airports Limited defined benefit pension scheme in the profit and loss account. Previously the amount was presented as a component of employment costs, but it is considered to provide greater clarity and to consequently be more appropriate for the amount to be included as a component of interest.

The prior year profit and loss account has been restated to reflect this change, increasing interest receivable by £14m reflecting the finance income from the defined benefit scheme and reducing interest cost by £14 million compared to the amounts previously reported. The cost recharge represents the allocation to the operating airport entities. There has been no effect on the company's Profit on Ordinary Activities Before Taxation, or on the balance sheet or cash flows.

Going concern
The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company, as part of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group'), has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the Heathrow Airport Holdings Group which is the smallest group to consolidate these financial statements and the level at which the financial risks are managed for the Company.

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

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Heathrow Airport Holdings Group liquidity position, including the projected upstreams of cash remaining committed and uncommitted facilities available to it, its scheduled debt maturities, and its forecast financial ratios and its ability to access debt markets.

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

Consolidated financial statements
The Company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of FGP Topco Limited and it and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2013. The results are also included in the consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013 (intermediate parent entity and the smallest group to consolidate these financial statements).

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

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. This is mainly comprised of the recovery of costs from Heathrow Airport Holdings Group entities in accordance with the Shared Services Agreements ('SSAs').

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

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

Under the terms of the SSAs, the Company has the ability to recover an amount equal to the existing pension deficit or surplus from the operating companies which are party to the SSAs. Based on this principle, an amount receivable or payable is booked reflecting this legal right and its movements due to changes in the pension deficit or surplus are recorded as exceptional charges or income due to their unusual nature.

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

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

Tangible fixed assets
Operational assets
Plant, equipment and other assets are stated at cost less accumulated depreciation and impairment losses.

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

Plant and equipment	*Fixed asset lives*
Office equipment	5 – 10 years
Computer equipment	4 – 5 years
Computer software	3 – 7 years

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date. Land is not depreciated.

Impairment of assets (excluding investment in subsidiaries)
The Company 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 Company estimates the asset's recoverable amount. Where the asset does not generate cash flows that are independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value 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 an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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.

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

Accounting policies for the year ended 31 December 2013 *continued*

Leases *continued*

Company as a lessee continued

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 Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

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

Company as a lessor

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

Investments

Investments in subsidiary held as fixed assets are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Other investments are accounted for in accordance with FRS 26 *Financial Instruments: Recognition and Measurement* on the basis more fully set out below under 'Financial assets'.

Debtors

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

Cash and current asset investments

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

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits less than one year (other than cash) and investments in money market managed funds.

Creditors

Creditors are recognised at cost.

Amounts owed to group undertakings

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

Deferred income

Payments received in advance of services being provided is deferred and released to the profit and loss account as earned.

Provisions

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

Restructurings

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

Derivative financial instruments

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.

Accounting policies for the year ended 31 December 2013 *continued*

Derivative financial instruments *continued*
The Company does not currently designate its derivatives in a hedge relationship.

Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

Changes in the fair value of any of the derivative instruments are recognised immediately in the profit and loss account.

The interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account.

The Company is exempt from reporting information under FRS 29 *Financial Instruments: Disclosures* because the consolidated financial statements of its intermediate parent Heathrow Airport Holdings Limited is prepared in accordance with IFRS 7 *Financial Instruments: Disclosures*.

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

Assets classified as 'loans and receivables' or 'held-to-maturity' are recognised on the balance sheet at amortised cost, using the effective interest rate method, less any provision for impairment.

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

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

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

Shared Services Agreements ('SSA')
The Company directly employs the employees of the Heathrow Airport Holdings Group with the exception of non-senior management at Heathrow Express Operating Company Limited ('HEX'). The Company also acts as the provider of corporate and administrative services to the Heathrow Airport Holdings Group and sponsors the related defined benefit pension plans and grants all employee benefits related to it.

On 18 August 2008, the Company entered into SSA, one with the Heathrow Airport Holdings Group's Designated airports and the other with Heathrow Airport Holdings Group's Non-Designated airports, under which the Company provides the Heathrow Airport Holdings Group with operational staff and corporate services.

Operational staff
The Company recharges the Heathrow Airport Holdings Group companies for the provision of services in relation to staff costs, including wages and salaries, pension costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of the Company in providing the services. All of the amounts included in the abovementioned costs are paid by Heathrow and the Airports Division.

Shared Services Agreements ('SSA') *continued*

Corporate and centralised services

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

Pension costs

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

Employee benefits

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

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

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

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

Further information on pension arrangements is set out in Note 13.

Share-based payments

The Company historically operated an Executive Share Option Plan ('ESOP') to provide awards of options over Ferrovial S.A. shares that were generally reserved for full time directors and other senior employees. This plan was closed in 2009 and replaced by a Performance Cash Plan, which is based upon a 3-year set of objectives.

In accordance with FRS 20 *Share Based Payments*, the ESOP is accounted for as cash-settled share-based payment transaction in accordance with the grant being made over Ferrovial S.A. shares because the Company has an obligation to settle the share-based payment transaction in cash.

For cash-settled share-based payments, a liability is recognised for the services acquired, measured initially at the fair value of the liability. At the balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

Options were granted with a fixed exercise price equal to the market price of the shares at the date of grant. The exercise period for each of the issues commenced three years from the option grant date and lasts for three years. Vesting of the options is subject to continued employment and the Heathrow Airport Holdings Group achieving targeted levels of EBITDA.

The Company has a number of cash-settled equity swaps that are treated as derivative financial instruments and are intended to hedge the future cash flows required on potential exercise of the options. The fair value of these equity swap arrangements is recorded in the balance sheet with the gain or loss incurred in the period recorded within the profit and loss account.

Accounting policies for the year ended 31 December 2013 *continued*

Current and deferred taxation

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

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

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

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

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

Share capital

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

Dividend distribution

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

Foreign currency

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

Transactions denominated in foreign currencies are translated into Sterling 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 profit and loss account.

Cash flow statement and related party transactions

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2013. The results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013 (intermediate parent entity and the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of accounting standard FRS 1 (Revised 1996) *Cash Flow Statements*.

The Company is exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are wholly owned subsidiaries of the FGP Topco Limited group.

Significant accounting judgements and estimates for the year ended 31 December 2013

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

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at year end and future returns on pension scheme assets and charges to the profit and loss account. The factors have been determined in consultation with the Company's actuary taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Company's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the Statement of total recognised gains and losses.

Taxation

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

Investment valuation

The Company reviews investments in subsidiaries for impairment if there are any indications that the carrying values 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.

Turnover

The Company is viewed by management as acting as a principal in some exchange transactions with its customers, as in the case of inter-company recharges concerning payroll costs. In these circumstances the Company has included the gross amount of its sales revenues within Turnover and the associated costs have been included within Operating Costs, both within the Profit and Loss Account. In contrast, other corporate costs recharged to Heathrow and the Airports Division include a fixed margin in accordance with the SSA, and in these cases the Company is viewed as acting as an agent. In such circumstances the relevant margin has been wholly recorded as a component of Turnover, and consequently no entry has been recorded within Operating Costs. This accounting treatment is in agreement with the accounting standard *Amendment to FRS 5 'Reporting the Substance of Transactions' : Revenue Recognition – November 2003,* and this judgement has been reached following consideration of whether the Company has been exposed to the majority of the significant benefits and risks associated with the exchange transaction.

Notes to the financial statements for the year ended 31 December 2013

1 Turnover

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

2 Operating costs - ordinary

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Wages and salaries	**345**	385
Social security	**34**	36
Pensions[1]	**71**	50
Other staff related costs	**27**	18
Share-based payments	**-**	1
Employment costs[2]	**477**	490
Maintenance expenditure	**-**	32
Utility costs	**-**	2
Rents and rates	**-**	2
General expenses	**5**	42
Retail expenditure	**-**	4
Intra-group charges/other[3]	**-**	46
Depreciation - owned assets	**-**	1
	482	619

[1] Pension costs in 2012 relate to both the defined benefit and defined contribution schemes operated by the Company.
[2] Employment costs in 2012 comprised employment costs of those involved in running the operational activities of the Airports. Refer to the SSA accounting policy.
[3] Intra-group charges/other in 2012 comprised principally IT and shared service costs recharged from other Heathrow Airport Holdings Group companies.

Rentals under operating leases

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating costs include:		
Other operating leases	**-**	2

Auditor's remuneration
Audit fees are paid for by the Company and are then recharged in accordance with the SSAs into the operating entities. Of the total audit fee £22,000 (2012: £21,000) related to the audit of the Company's financial statements.

Employee information
All of the Company's employees were based in the United Kingdom and the average monthly number of employees (including executive directors) of the Company was as follows:

	Year ended 31 December 2013 Number	Year ended 31 December 2012 Number
Airports[1]	**6,753**	7,397
Other operations[2]	**9**	712
	6,762	8,109

[1] The Airports employee number category has reduced by 9% from 2012 to 2013 mainly because the Stansted airport employee numbers were included in this category until the sale of Stansted airport on 28 February 2013.

[2] The Other Operations employee number category has reduced by 99% from 2012 to 2013 because corporate staff previously included within the LHR Airports headcount have transferred to Heathrow Airports Limited.

2 Operating costs – ordinary ***continued***

Directors' remuneration

All of the directors were directors of a number of companies within the Heathrow Airport Holdings Group as well as LHR Airports Limited. Their remuneration for the year ended 31 December 2013 was disclosed within the statutory financial statements of the following companies to which they primarily provide services: José Leo and Colin Matthews – Heathrow Airport Holdings Limited; John Holland-Kaye, Normand Boivin, Terence Morgan, Carol Hui, Clare Harbord, Emma Gilthorpe, Fidel López, Fiona Rodford, Paula Stannett, Ian Ballentine and Neil Clark – Heathrow Airport Limited as it is not considered possible to apportion their remuneration to different companies. Jim O'Sullivan is also a director of a number of companies within the Heathrow Airport Holdings Group but is not considered to primarily provide services to any company alone.

During the year, four of the directors (2012: three) had retirement benefits accruing to them under a defined benefits scheme and six of the directors (2012: five) had retirement benefits accruing to them under a defined contribution scheme.

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

3 Exceptional items

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating gains – exceptional		
Pension allocation credit	**74**	208
Other exceptional credit[1]	**-**	43
Total operating exceptional items	**74**	251
Taxation on exceptional items	**(15)**	(48)
Total exceptional items after tax	**59**	203

[1] The other exceptional credit in 2012 mainly relates to a net intercompany balance of £43 million which was released to the Profit and Loss Account following recent rationalisation of the structure of Heathrow Airport Holdings Group and the related dissolution of several entities.

During 2013, there was a net exceptional pension credit of £74 million (2012: £208 million) which reflects an increase in the amount receivable by the Company from the entities party to the SSAs due to movements in the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme and Post Retirement Medical Benefits pension related liabilities.

Notes to the financial statements for the year ended 31 December 2013 *continued*

4 Net interest receivable and similar income

	Year ended 31 December 2013 £m	Restated[2] Year ended 31 December 2012 £m
Interest receivable and similar income		
Interest receivable from other group undertakings	689	648
Interest receivable on derivative financial instruments	1	11
Interest receivable on deposits	1	-
Interest from available-for-sale financial assets	3	2
Net pensions finance income[2]	8	14
	702	675
Interest payable and similar charges		
Interest on borrowings from other group undertakings	(61)	(56)
Interest payable on derivative financial instruments	-	(2)
Other charges	-	(1)
Net pensions finance cost recharge[1]	(8)	(14)
	(69)	(73)
Net interest receivable before fair value gain	633	602
Fair value gain on financial instruments		
Equity swaps	12	20
Net interest receivable and similar income	645	622

1 This represents the recharge of pension finance cost to the operating airports.
2 The presentation of pension finance income has been restated for a change in accounting policy as explained in the accounting policies note.

5 Other income

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Dividends received from subsidiaries[1]	700	391
Realisation of investment in subsidiary	-	(1)
Impairment of subsidiaries	(2)	(2)
	698	388

1 Dividends received from Heathrow (DSH) Limited.

6 Tax on profit on ordinary activities

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Current tax	(110)	-
Group relief payable	134	150
Adjustments in respect of prior periods[1]	(146)	(44)
Total current tax	(122)	106
Deferred tax		
Origination and reversal of timing differences – non pension	9	5
Origination and reversal of timing differences – pension	6	45
Change in tax rate – non pension	2	2
Change in tax rate – pension	(20)	(9)
Adjustments in respect of prior periods	1	-
Total deferred tax (credit)/charge	(2)	43
Tax (credit)/charge on profit on ordinary activities	(124)	149

1 Adjustment in respect of the prior period relates mainly to worldwide debt cap calculations.

6 Tax on profit on ordinary activities *continued*

Reconciliation of tax (credit)/charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 23.25% (2012: 24.5%). The actual tax charge for the current period and prior period differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Profit on ordinary activities before tax	**1,414**	1,272
Tax on profit on ordinary activities at 23.25% (2012: 24.5%)	**329**	312
Effect of:		
Permanent differences	**(115)**	(13)
Non-taxable income	**(163)**	(96)
Temporary timing differences	**(27)**	(53)
Adjustments to tax charge in respect of prior periods[1]	**(146)**	(44)
Current tax (credit)/charge for the year	**(122)**	106

[1] Adjustment in respect of the prior period relates mainly to worldwide debt cap calculations.

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will change from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. Other than these changes there are no items which would materially affect the future tax charge.

7 Tangible assets

	Operational land £m	**Plant, equipment and other assets £m**	**Total £m**
Cost			
1 January 2013	2	27	29
Disposals[1]	-	(14)	(14)
31 December 2013	**2**	**13**	**15**
Depreciation			
1 January 2013	-	(26)	(26)
Disposals[1]	-	14	14
Charge for the year	-	(1)	(1)
31 December 2013	**-**	**(13)**	**(13)**
Net book value 31 December 2013	**2**	**-**	**2**
Net book value 31 December 2012	2	1	3

[1] Disposal relates to retirement of fully written down assets.

8 Investments

	Note	**Subsidiaries £m**	**Available for sale investments £m**	**Total £m**
Cost				
1 January 2013		5,433	23	5,456
Impairment of subsidiaries	5	(2)	-	(2)
31 December 2013		**5,431**	**23**	**5,454**
Revaluation				
1 January 2013		-	4	4
Revaluation		-	1	1
31 December 2013		**-**	**5**	**5**
Net book value 31 December 2013		**5,431**	**28**	**5,459**
Net book value 31 December 2012		5,433	27	5,460

Notes to the financial statements for the year ended 31 December 2013 *continued*

8 Investments *continued*

Subsidiaries
The Company's principal subsidiaries whose financial position materially affects the Company are shown below:

Immediate subsidiaries are:

Subsidiary	Nature of business	% of issued share capital held	Class of share
Heathrow (DSH) Limited	Holding Company	100	Ordinary shares of £1 each
Heathrow Enterprises Limited	Investment Company	100	Ordinary shares of £1 each

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

Indirectly held subsidiaries are:

Subsidiary	Nature of Business	% of issued share capital held	Class of share
Heathrow Airport Limited	Airport Operator	100	Ordinary shares of £0.30 each
		100	Redeemable Preference shares of £1 each
		100	Irredeemable Preference shares of £0.01 each
Heathrow Express Operating Company Limited	Railway Operator	100	Ordinary shares of £1 each
Heathrow Funding Limited[1]	Funding Company	100	Ordinary shares of £1 each
Heathrow (AH) Limited	Holding Company	100	Ordinary shares of £0.0015 each
Heathrow (SP) Limited	Holding Company	100	Ordinary shares of £0.0019 each
Heathrow Finance plc	Holding Company	100	Ordinary shares of £1 each

[1] Incorporated in Jersey.

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

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2013. A rate of 10% (2012: 10%) has been used as the discount factor.

Notes to the financial statements for the year ended 31 December 2013 *continued*

9 Debtors

	31 December 2013 £m	31 December 2012 £m
Due within one year		
Trade debtors	-	2
Amounts owned by group undertakings – interest free[1]	167	105
Amounts owned by group undertakings – interest bearing[2]	10	9
Interest receivable from group undertakings[3]	278	263
Amounts owed by group undertakings – pensions[4]	123	129
Prepayments	-	9
Other Debtors	-	1
Corporation tax receivable	16	-
	594	518
Due after more than one year		
Derivative financial instruments[5]	8	16
Amounts owed by parent undertaking[6]	8,589	7,934
Deferred tax (a)	2	9
	8,599	7,959
Total debtors	9,193	8,477

1 'Amounts owed by group undertakings – interest free' is made up of £1 million (2012: £4 million) which is receivable from LHR Business Support Centre Limited in relation to its role as agent for payments and collection of cash on behalf of the Company under the SSA and £7 million (2012: £14 million) of trading balances due from group undertakings which are interest free and settled on a monthly basis. Of the remaining £159 million, £151 million (2012: £85 million) is in relation to loans receivable from the Company's subsidiaries and £8 million (2012: £2 million) to other Heathrow Airport Holdings Group companies.

2 'Amounts owed by group undertakings – interest bearing' is mainly made up of loans which have arisen over a number of years and accrue interest at 1.5% over Bank of England base rate with no fixed terms for repayment. In addition there is £6 million (2012: £6 million) due from Heathrow Enterprises Limited which accrues interest at 13% and is repayable on demand.

3 This relates to £277 million (2012: £262 million) of interest receivable from Heathrow Holdco Limited and £1 million (2012: £1 million) of interest receivable from other subsidiaries.

4 This balance represents amounts due to the Company from the Airports and HEX in respect of the allocation of the deficit on the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme, and Post-Retirement Medical Benefits pension related liabilities.

5 The Company has entered into a number of equity swaps to hedge share price risk under the wider Heathrow Airport Holdings Group's ESOP. The £8 million (2012: £16 million) relates to those equity swaps with a positive mark to market fair value. The total ESOP derivative portfolio consists of exposure to the share price movement of 1 million shares at a total mark to market asset of £8 million as at 31 December 2013 (2012: 11.77 million shares with net mark to market liability of £36 million).

6 Amounts owed by parent undertaking relates to a loan to Heathrow Holdco Limited. This amount accrues interest at 8.24% at 31 December 2013 (2012: 8.24%).

(a) Analysis of deferred taxation (excluding pensions)

	£m
1 January 2013	9
Charged to profit and loss account	(12)
Reversal of deferred tax on fair value gains	5
31 December 2013	**2**

Analysis of the deferred tax balances is as follows:

	31 December 2013 £m	31 December 2012 £m
Excess of depreciation over capital allowances	2	2
Other short term timing differences	1	2
Derivative financial instruments	(1)	5
Deferred tax asset	2	9

Provision has been made for deferred taxation in accordance with FRS 19 *Deferred Tax*.

The Finance Act 2013 enacted reductions in the main rate of corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. As a result the Company's deferred tax balances, which were previously provided at 23%, have been re-measured at the rate of 20%. This has resulted in a reduction in the net deferred tax asset of £2 million, charged to the profit and loss account.

Notes to the financial statements for the year ended 31 December 2013 *continued*

10 Cash at bank and in hand

	31 December 2013 £m	31 December 2012 £m
Cash at bank and in hand	**8**	33

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

11 Creditors: amounts falling due within one year

	31 December 2013 £m	31 December 2012 £m
Trade creditors	**40**	53
Amounts owed to group undertakings – interest free	**144**	113
Amounts owed to group undertakings – interest bearing[1]	**282**	1,082
Corporation tax payable	**-**	94
Group relief payable[2]	**134**	150
Other tax and social security	**-**	2
Dividends payable	**4**	4
Derivative financial instruments[3]	**-**	52
Other creditors	**9**	6
	613	1,556

[1] Amounts owed to group undertakings – interest bearing mainly includes balances owed to subsidiaries which accrue interest at 1.5% over Bank of England base rate.
[2] Group relief is payable to other entities in the wider Heathrow Airport Holdings Group who have surrendered losses to the Company in the period.
[3] The Company has entered into a number of equity swaps to hedge share price risk under the wider Heathrow Airport Holdings Group's ESOP. The total ESOP derivative portfolio consists of exposure to the share price movement of 1 million shares at a total mark to market asset of £8 million as at 31 December 2013 (2012: 11.7 million shares with net mark to market liability of £36 million). The £8 million in debtors (2012: £16 million and £52 million included in 'Creditors amounts falling due within one year') relates to the respective positive and negative mark to market fair value. During the year 10.7m swaps were cancelled at a cost of £31m.

12 Creditors: amounts falling due after more than one year

	31 December 2013 £m	31 December 2012 £m
Amounts owed to group undertakings – interest free[1]	**74**	74
Amounts owed to group undertakings – interest bearing[2]	**2,808**	1,952
	2,882	2,026

[1] Amounts owed to group undertakings – interest fee relates to a loan from Heathrow (DSH) Limited, a subsidiary of the Company.
[2] Amounts owed to group undertakings – interest bearing include balances totalling £2,808 million (2012: £1,939 million) which accrue interest at 1.5% over Bank of England base rate. In addition, there are balances of accrued interest of £ nil million (2012: £13 million) relating to these group balances.

13 Retirement benefit obligations

	31 December 2013 £m	31 December 2012 £m	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m
Fair value of plan assets at end of year	**2,867**	2,791	2,691	2,359	2,029
Benefit obligation at end of year	**(2,960)**	(2,894)	(2,652)	(2,403)	(2,285)
Gross (deficit)/surplus in BAA Pension Scheme	**(93)**	(103)	39	(44)	(256)
Related deferred tax asset[1]	**-**	-	-	-	-
Net (deficit)/surplus in BAA Pension Scheme	**(93)**	(103)	39	(44)	(256)
Unfunded pension obligations	**(23)**	(24)	(23)	(19)	(18)
Post-retirement medical benefits	**(5)**	(6)	(6)	(4)	(4)
Gross deficit on other pension and post-retirement benefit obligations	**(28)**	(30)	(29)	(23)	(22)
Related deferred tax asset	**5**	7	7	6	6
Net deficit on other pension and post-retirement benefit obligations	**(23)**	(23)	(22)	(17)	(16)

[1] No deferred tax asset or liability has been recognised in the Company's balance sheet. The overall deferred tax asset associated with the BAA Pension Scheme deficit of £93 million (2012: £103 million) is £19 million (2012: £24 million) and this is disclosed separately within other group entities.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
BAA Pension scheme (Note 13(a))	**63**	44
Defined contribution schemes	**7**	6
Additional provision for unfunded schemes	**1**	1
Total operating charge to employment costs	**71**	51

(a) BAA Pension Scheme

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

The value placed on the liabilities of the scheme as at 31 December 2013 is based on a roll forward of the detailed valuation calculations carried out by the Trustees as at 30 September 2010 based on individual member data. The liabilities have been updated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with FRS 17 *Employee Benefits*. The Scheme assets are stated at their bid value at 31 December 2013. The Company's accounting policy is to recognise actuarial gains and losses as they occur in the statement of total recognised gains and losses.

The financial assumptions used to calculate the Scheme assets and liabilities under FRS 17 are:

	31 December 2013 %	31 December 2012 %
Rate of increase in pensionable salaries	**4.9**	4.5
Increase to deferred benefits during deferment	**2.4**	2.3
Increase to pensions in payment:		
Open section	**3.3**	2.9
Closed section	**3.4**	3.0
Discount rate	**4.6**	4.4
Inflation assumption	**3.4**	3.0
Expected return on plan assets:		
Equities	**8.1**	7.5
Bonds	**3.8**	3.6
Cash	**n/a**	n/a

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

13 Retirement benefit obligations *continued*

(a) BAA Pension Scheme continued

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

The expected rate of inflation is an important assumption for the salary growth and pension increase assumptions. A rate of inflation is "implied" by the difference between the yields on fixed and index-linked government bonds. To develop the expected long-term rate of return on assets assumption, the Heathrow Airport Holdings Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

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

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

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 5.1% assumption (2012: 4.8%).

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

The amounts charged to profit and loss account are as follows:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Current service cost	**67**	61
Finance cost on benefit obligation[1]	**122**	126
Expected return on plan assets[1]	**(130)**	(143)
Past service cost	**4**	-
Total charge to the profit and loss account	63	44

[1] Finance cost and expected return are components of Interest Payable and Similar Charges, see Note 4.

The amounts recognised in the statement of total recognised gains and losses:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Actual return less expected return on plan assets	**12**	(29)
Experience gains and losses arising on the benefit obligation	**(2)**	5
Changes in assumptions underlying the present value of the benefit obligation	**(84)**	(187)
Actuarial loss recognised in the statement of recognised gains and losses[1 2]	**(74)**	(211)

[1] The total actuarial loss recognised in the statement of total recognised gains and losses before tax is £74 million (2012: £211 million). This is made up of £76 million actuarial loss (2012: £210 million) on the defined benefit scheme and a £2 million actuarial gain (2012: £1 million loss) on the other pension and post-retirement liabilities (refer to section (b) below).

[2] Total cumulative actuarial losses recognised in equity were £360 million (2012: £284 million) on the defined benefit scheme.

The actual return on plan assets was £142 million (2012: £114 million).

Experience losses of £2 million (2012: £5 million gain) arose due to an updated valuation of UURBS and PRM arrangements, and the final effect of the disposal of Stansted Airport.

The actuarial loss of £86 million (2012: £186 million) arising from changes in assumptions in the year ended 31 December 2013 resulted from a reduction in the net discount rate of 0.25% offset by an update to the mortality improvement assumption.

Notes to the financial statements for the year ended 31 December 2013 *continued*

13 Retirement benefit obligations *continued*
(a) BAA Pension Scheme continued
The amounts recognised in the balance sheet are determined as follows:

	31 December 2013 **£m**	31 December 2012 £m
Fair value of plan assets		
Equities	**724**	534
Bonds	**1,155**	1,245
Other[1]	**988**	1,012
Total fair value of plan assets	**2,867**	2,791
Present value of benefit obligation	**(2,960)**	(2,894)
Gross deficit in scheme at 31 December	**(93)**	(103)
Deferred tax[2]	**-**	-
(Liability) recognised in the balance sheet	**(93)**	(103)

[1] Other mainly includes £119 million (2012: £198 million) of hedge funds and £709 million (2012: £729 million) of interest rate and inflation instruments.
[2] No deferred tax asset or liability has been recognised in the Company's balance sheet. The overall deferred tax asset associated with the BAA Pension Scheme deficit of £93 million (2012: £103 million) is £19 million (2012: £24 million) and this is disclosed separately within other group entities.

Analysis of movement in the benefit obligation:

	2013 **£m**	2012 £m
Benefit obligation at 1 January	**2,894**	2,652
Movement in the year:		
Current service cost	**58**	61
Past service cost	**(23)**	-
Finance cost	**122**	126
Members' contributions	**8**	10
Actuarial loss	**86**	181
Edinburgh transfer on settlement	**-**	(46)
Settlement gain	**(92)**	-
Experience loss	**2**	-
Benefits paid (by fund and company)	**(95)**	(90)
Benefit obligation at 31 December	**2,960**	2,894

As part of the triennial review of the Scheme completed in 2011 based on the Scheme's valuation as at 30 September 2010 it was agreed that the new contribution will be £97 million per annum (out of which £24 million related to deficit reduction) commencing from 1 January 2012. Following the disposal of Edinburgh Airport Limited, the schedule of cash contributions was reduced to £94 million per annum from January 2013, with a further reduction to £87 million per annum from January 2014 following the sale of Stansted airport.

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

	2013 **£m**	2012 £m
Fair value of plan assets at 1 January	**2,791**	2,691
Expected return on plan assets	**130**	143
Actuarial gain	**12**	(29)
Employer contributions (including benefits paid and reimbursed)	**94**	99
Administration expenses	**(2)**	-
Stansted commutation payment	**35**	-
Members' contributions	**8**	10
Edinburgh commutation payment	**-**	13
Bulk transferred assets for Edinburgh	**(106)**	(46)
Benefits paid (by fund and company)	**(95)**	(90)
Fair value of plan assets at 31 December	**2,867**	2,791

Notes to the financial statements for the year ended 31 December 2013 *continued*

13 Retirement benefit obligations *continued*
a) BAA Pension Scheme continued

History of experience gains and (losses):

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
Difference between the expected and actual return on scheme assets:					
Amount £m	**12**	(29)	174	75	(71)
Percentage of scheme assets	**0.4**	(1.0)	6.5	3.2	(3.5)
Experience losses and gains on benefits obligations:					
Amount £m	**(2)**	5	(70)	20	67
Percentage of scheme liabilities	**(0.1)**	0.2	(2.6)	0.8	2.9
Amount recognised in the statement of total recognised gains and losses:					
Amount £m	**(76)**	(210)	10	62	(404)
Percentage of benefit obligation	**(2.6)**	(7.3)	0.4	2.6	(17.7)

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the discount rate:

	Annual impact in profit and loss account		**Impact in equity**	
	£m	**£m**	**£m**	**£m**
Sensitivity analysis based on change in discount rate	Before tax	After tax	Before tax	After tax
+0.50% discount rate	(6)	(4)	(251)	(201)
- 0.50% discount rate	9	7	287	227

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the inflation rate:

	Annual impact in profit and loss account		**Impact in equity**	
	£m	**£m**	**£m**	**£m**
Sensitivity analysis based on change in inflation rate	Before tax	After tax	Before tax	After tax
+ 0.50% inflation rate	99	76	258	206
- 0.50% inflation rate	(6)	(5)	(226)	(181)

A change in the mortality assumption causing a one year increase in life expectancy would have a £85 million impact on the defined benefit obligation and a £2 million impact on the forward looking service cost.

(b) Other pension and post-retirement liabilities
The Company operates a defined contribution scheme for all employees who joined after 15 June 2008. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £7 million (2012: £6 million).

The Company also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the scheme rules. In addition the Company provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £5 million (2012: £6 million) is included in the balance sheet, along with provision for unfunded pension obligations of £23 million (2012: £24 million). The value of these unfunded pension obligations exclude the associated deferred tax asset of £5 million (2012: £7 million) and have been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

14 Provisions for liabilities and charges

	Disposal of operations £m	Reorganisation costs £m	Total £m
1 January 2013	3	-	3
Utilised in the year	(1)	-	(1)
Charged in the year	-	22	22
31 December 2013	**2**	**22**	**24**

A provision is held for payment of costs associated with disposal of operations at Naples airport on behalf of BAA Italia S.p.A, a subsidiary of the Company. The corresponding entry is recorded as intercompany receivable from BAA Italia S.p.A. These amounts are expected to be fully utilised in 2014. The reorganisation costs provision of £22m created in 2013 relates to a corporate restructuring programme.

15 Called up share capital

	£
Authorised	
At 1 January and 31 December 2013	
1,765,000,000 ordinary shares of £1 each	1,765,000,000
Called up, allotted and fully paid	
At 1 January and 31 December 2013	
1,567,400,315 ordinary shares of £1 each	**1,567,400,315**

16 Share premium reserve

	£m
1 January and 31 December 2013	**325**

17 Other reserves

	Available for sale investments £m	Capital redemption reserve £m	Total £m
1 January 2013	21	27	48
Reversal of deferred tax on fair value gains	5	-	5
31 December 2013	**26**	**27**	**53**

18 Profit and loss reserve

	£m
1 January 2013	8,322
Profit for the financial year	1,538
Dividends paid	(688)
Actuarial loss on pensions gross of deferred tax	(74)
Deferred tax – impact of change in the tax rate	(21)
Deferred tax – current year tax movement on pensions	5
31 December 2013	**9,082**

19 Contingent liabilities

The Company 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 £48 million at 31 December 2013 (2012: £49 million).

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

20 Ultimate parent undertaking

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

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (25%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20%) (a wholly owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (13.29%), Baker Street Investment Pte Ltd (11.88%) (an investment vehicle of the Government of Singapore Investment Corporation), Alinda Airports UK L.P. and Alinda Airports L.P. (11.18%) (investment vehicles managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (8.65%) (an investment vehicle of the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2013.

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

21 Post balance sheet events

On 20 February 2014, the board approved the payment of a £63 million dividend to the Company's parent, Heathrow Holdco Limited, and an £4 million intercompany loan repayment to Heathrow Airport Limited. This was financed by the receipt of a dividend from the Company's subsidiary, Heathrow (DSH) Limited for £67 million.

On 19 June 2014, the board approved the payment of a £79 million dividend to Heathrow Holdco Limited; this was financed by the receipt of a dividend form the Company's subsidiary, Heathrow (DSH) Limited for £79 million.

On 24 July 2014, the board approved the payment of a £67 million dividend to Heathrow Holdco Limited; this was financed by the receipt of a dividend form the Company's subsidiary, Heathrow (DSH) Limited for £67 million.