Heathrow Airport Limited
Annual report and financial statements
for the year ended 31 December 2013

Company registration number: 01991017

Heathrow Airport Limited

Contents

Heathrow Airport Limited

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Heathrow Airport Limited

Strategic report

Heathrow Airport Limited (the 'Company') operates Heathrow airport ('Heathrow') and Heathrow Express ('HEX'), the express rail service between Heathrow and Central London. The Company is entitled to all receipts and income relating to HEX but the day-to-day operation of HEX is undertaken by Heathrow Express Operating Company Limited (a subsidiary of the Company) on behalf of the Company.

The Company is a subsidiary of Heathrow Airport Holdings Limited. The Company's financial activities are aligned with Heathrow Airport Holdings Limited and the wider Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group') and also with Heathrow (SP) group (the 'SP Group'), which is the intermediate parent undertaking of the smallest group to consolidate these financial statements.

This strategic report is presented in three sections:
Management review – overview of the year ended 31 December 2013, along with the key factors likely to impact the Company in 2014.
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.
Risk management – outline of the Heathrow Airport Holdings Group's approach to risk management, sources of assurance and highlights of the key business risks identified by the Heathrow Airport Holdings Group Executive Committee which are managed by the Company.

Management review
Review of 2013
Key features of the year
2013 was a positive year for the business marked by a number of key milestones. Passenger satisfaction at Heathrow reached record levels and for the first time Heathrow welcomed over 72 million passengers to the airport. Strong financial performance underpinned the on-going transformation of the airport, most notably marked by the completion, on time, of Terminal 2's construction phase. The Independent Airports Commission published its interim findings and shortlisted Heathrow's proposal for hub expansion, recognising the need for new airport capacity in the South East of England.

Heathrow continues to progress in making every journey better. A key independently measured score for passenger satisfaction beat its previous annual high with 75% of Heathrow's passengers rating their experience in 2013 as excellent or very good. Skytrax named Heathrow Terminal 5 the World's Best Airport Terminal for the second year running and declared Heathrow the World's Best Airport Shopping. Airports Council International also named Heathrow as Europe's Best Airport with more than 25 million annual passengers.

Almost 470,000 flights departed and landed at Heathrow in 2013, 10,000 below the maximum permitted. Despite operating close to full capacity, Heathrow delivered a robust overall operational performance in 2013. On average, aircraft were larger and fuller than in previous years, which led to a growth in traffic of 3.4%, to a record 72.3 million passengers.

Heathrow continued to invest heavily in transforming the airport, spending £1.3 billion in 2013. The new Terminal 2 has been the cornerstone of investment, completing construction of a main terminal building, a satellite terminal building, a car park and an energy centre. It will be known as 'Terminal 2: The Queen's Terminal' in honour of Her Majesty Queen Elizabeth II, and will be the home to 26 airlines. Operations begin on 4 June 2014 with United Airlines, followed by a phased move of airlines until November 2014.

The next regulatory period for Heathrow's economic regulation ('Q6') began on 1 April 2014. Following constructive engagement with airlines Heathrow developed a five-year business plan. The plan set out operational and capital programmes to continue the transformation of Heathrow, focusing on service delivery and improving the experience of passengers, whilst delivering operating efficiencies.

Following two phases of consultation on the plan, the CAA gave notice in January 2014 of its intention to set a maximum allowable yield per passenger of RPI minus 1.5% per year, with an assumed capital plan of £2.8 billion. 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.

Strategic report *continued*

Key features of the year continued

At the end of 2012 the UK government established the Airports Commission to examine the requirement for additional airport capacity to maintain the UK's position as Europe's most important aviation hub. In December 2013 the Commission published its interim report and stated that there is a clear case for at least one net additional runway in London and the South East by 2030. Heathrow's proposal for the third runway to the north west of the airport was shortlisted.

This option would raise the capacity at Heathrow to 740,000 flights a year, from the current limit of 480,000. It would cater for 130 million passengers and allow the UK to compete with international rivals as well as providing capacity for the foreseeable future. With the proposed north west third runway there will be 15% fewer people within Heathrow's noise footprint in 2030 than today. This is due to its position further from London, quieter new generation aircraft and changes in operating procedures. The company welcomes the inclusion of Heathrow in the shortlist and has begun working with local authorities, communities and other stakeholders, to refine the runway option, including public consultation.

The Commission will explore all options on its shortlist in more detail ahead of its full report due by the summer of 2015.

Passenger traffic trends

Heathrow's passenger traffic by geographic segment for the year ended 31 December 2013:

Passengers by geographic segment (millions)	**Year ended 31 December 2013**	Year ended 31 December 2012	Change[1] (%)
UK	**5.0**	4.7	5.9
Europe	**29.9**	28.7	4.4
North America	**16.7**	16.3	2.4
Asia Pacific	**10.3**	9.8	5.3
Middle East	**5.9**	5.6	4.4
Africa	**3.5**	3.9	(10.2)
Latin America	**1.1**	1.0	5.7
Total passengers[1]	**72.3**	70.0	3.4

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

For the year ended 31 December 2013, Heathrow's traffic increased 3.4% to a record 72.3 million passengers (2012: 70.0 million), with an average load factor of 76.4% (2012: 75.6%) and 202.8 average seats per aircraft (2012: 197.4). The rate of growth in traffic was boosted by the non-recurrence of the dip in demand experienced during the Olympic Games in 2012, estimated at around 720,000 passengers. Taking this into account, the underlying rate of growth for the year was in the region of 2.3%.

On a regional basis, Europe generated the most significant increase in traffic, with over 1.2 million additional passengers. This in part reflects the dampened demand in 2012 caused by the Olympics, which was more pronounced in short haul traffic. The underlying growth in the region reflects the integration of bmi routes into British Airways. UK traffic grew by 5.9% to 5.0 million passengers (2012: 4.7 million) partly relating the launch of UK domestic services by Virgin Atlantic Little Red at the start of the summer.

Long haul traffic performed well in most regions. Asia Pacific traffic increased 5.3% to 10.3 million passengers (2012: 9.8 million), as airlines launched new routes and frequencies including growth in China and India. Middle East traffic increased 4.4% to 5.9 million passengers (2012: 5.6 million) with larger aircraft and passenger growth from Emirates, Etihad and Saudi Airlines. The Americas benefitted from fuller planes, with the rate of growth in North American traffic increasing though the year, leading to an overall rise in passengers of 2.4%, and Latin American traffic increased 5.7% to 1.1 million passengers (2012: 1.0 million).

Transforming Heathrow airport

Enhancing Heathrow's facilities

Heathrow's investment programme in 2013 continued the transformation of the airport, with principal focus on the construction of the new Terminal 2. The terminal is to be named 'Terminal 2: The Queen's Terminal' in honour of Her Majesty Queen Elizabeth II who opened the original Terminal 2 sixty years ago. It will be the home to all 23 Star Alliance airlines operating at Heathrow as well as Aer Lingus, germanwings and Virgin Atlantic Little Red.

The £2.5 billion investment in Terminal 2 comprises a main terminal building and a satellite building, together with a multi-storey short-stay car park, as well as an energy centre that supports the Terminal 2 campus and wider airport. 24 fully serviced and fuelled aircraft stands, including seven A380 compatible stands, have been constructed together with taxiways that surround the buildings. Services have been installed to the buildings and the surrounding infrastructure. Remaining activities include the commissioning lifts, escalators and fire alarms; competing non-passenger facing areas and modifications due to the change in airline occupancy driven by the end of bmi operations following its acquisition by British Airways.

Strategic report *continued*

Transforming the Heathrow airport continued

Enhancing Heathrow's facilities continued

The project moved on time from the construction phase to the operational readiness phase in November 2013. Extensive trails and familiarisation activities are underway, to ensure operational readiness of the facility and of the 24,000 people from 160 different organisations that will work at Terminal 2. Operations will start on 4 June 2014 with United Airlines, followed by a phased move of airlines into the terminal over the following six months.

In addition, significant investment continues on Heathrow's baggage infrastructure. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational. Delivery of the Terminal 3 integrated baggage system remains on track to start operation in 2015. The integrated baggage system is housed in a separate building and will provide Terminal 3 with an integrated departing and transferring baggage system. The building has been made weather-tight and the baggage system is now being assembled inside the building.

Heathrow's southern runway was resurfaced during 2013 with works carried out during the night closures of the runway. The northern runway will be resurfaced in 2014.

Service standards

Heathrow's focus on transforming the experience of passengers travelling though the airport continued to receive endorsement from the travelling public in 2013.

In the 2013 Skytrax World Airport Awards, Terminal 5 was named the World's Best Airport Terminal for the second consecutive year and Heathrow was declared the World's Best Airport Shopping. Heathrow was also named among Skytrax top 10 global airports for the first time. Separately in June, Heathrow was named Best Airport in the 2013 ACI Europe Awards: Europe's Best Airport (with over 25 million annual passengers).

Underpinning these endorsements, in the independent Airport Quality survey, directed by Airports Council International ('ACI'), 75% of Heathrow passengers surveyed rated their experience as 'Excellent' or 'Very Good', beating the previous annual high of 73% in 2012. In addition, Heathrow achieved its highest overall passenger satisfaction score of 3.99 for the first two quarters of 2013 and 3.97 in the final quarter. As a result, Heathrow achieved a record overall performance of 3.97 in 2013, reflecting a notable improvement over the last year (2012: 3.94).

In relation to individual service standards, during the year ended 31 December 2013, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 77% (2012: 78%). Heathrow's baggage misconnect rate was 14.5 per 1,000 passengers (2012: 15.0). On security queuing, passengers passed through central security within the five minute period prescribed under the service quality rebate scheme 90.9% of the time (2012: 92.8%) compared with a 95% service standard. The security queue experience remains key priority of the business and a range of initiatives have been implemented to improve performance. In order to meet increased passenger volumes, further additional security officers are being recruited and additional security lanes are being introduced during 2014.

Regulatory and governmental developments

Heathrow's development for the next 5 years

A new regulatory period ('Q6'), for economic regulation of Heathrow began on 1 April 2014. On 10 January, following more than a year of constructive engagement with airlines, a number of business plan iterations and draft proposals for the regulator, the CAA gave notice of its proposed licence for the airport under the Civil Aviation Act 2012. This set out a maximum allowable yield per passenger of 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 4 years and 9 months, to align the regulatory year with Heathrow's financial year.

Strategic report *continued*

Regulatory and governmental developments continued

Heathrow's development for the next 5 years

On 13 February 2014, the CAA formally granted Heathrow's licence to charge fees for the provision of airport services that took 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 and north of the existing runway's.

On 17 December 2013, the Commission published its interim report. 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 5 years.

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 130 million passengers annually compared to 80 million today, allowing the UK to compete with international rivals and providing capacity for the foreseeable future. The project 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 is due to its positioning further from London, quieter new generation aircraft and changes in operating procedures. The option maintains the principal of runway alteration 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 will be submitted to the Airports Commission in May 2014. The Airports Commission is due to report its final findings in summer 2015.

Outlook

Heathrow expects continued growth in revenue, Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') and operating cash flow in 2014, primarily driven by higher passenger traffic, increased aeronautical charges and operating efficiencies, which in combination will mitigate costs related to operating an additional terminal once Terminal 2 opens.

Since the CAA published its final decision for the regulatory period that commenced on 1 April 2014, the Company has reassessed the outlook for 2014 including trading in the early months, the impact of the change in the regulatory year-end from 31 March to 31 December and finalising plans to meet the regulatory settlement.

As a result, as at the end of April 2014, the Company expects Adjusted EBITDA for 2014 to be slightly higher, on a like for like basis, than the figure disclosed in the December 2013 investor report, which would have been £1,513 million after reclassifying the forecast Terminal 2 operational readiness costs as exceptional items.

Financial review *continued*

The following financial review provides commentary on the performance of the Company during 2013.

Basis of preparation of statutory results
The Company's statutory accounts are prepared under UK GAAP.

Basis of presentation of financial results
The table below summarises the Company's financial performance in 2013 and includes comparative information for 2012.

From 1 January 2013, the classification in the profit and loss account of the financial return on the pension scheme assets has been reported in interest, where previously it was reported in employment costs. In order to reflect the change in accounting policy, employment costs, operating costs, Adjusted EBITDA, operating profit and net interest payable and similar charges have been restated. For 2012, the restatement removes a credit of £16 million related to the defined benefit pension scheme from employment costs and restates it as interest receivable. There is no impact on the balance sheet or cash flows of the Company from this change.

	Year ended 31 December 2013 £m	Restated[3] Year ended 31 December 2012 £m	Change %
Turnover	**2,478**	2,224	11.2
Adjusted operating costs[1]	**(1,063)**	(1,071)	(0.7)
Adjusted EBITDA[2]	**1,415**	1,153	22.7
Exceptional items	**(114)**	(151)	24.5
EBITDA	**1,301**	1,002	29.8
Depreciation – ordinary	**(448)**	(470)	4.7
Operating profit	**853**	532	60.3

1 Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
2 Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.
3 The presentation of adjusted operating costs (specifically pensions costs), for the year ended 31 December 2013, have been restated following a change in accounting policy as explained in the accounting policies note.

Turnover
In the year ended 31 December 2013, the Company's turnover increased 11.2% to £2,478 million (2012: £2,224 million). This reflects increases of 19.0% and 5.9% in aeronautical and retail income respectively, offset by a 3.3% decrease in other sources of income.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %
Aeronautical income	**1,523**	1,280	19.0
Retail income	**487**	460	5.9
	2,010	1,740	15.5
Other sources of income:			
Operational facilities and utilities income	**165**	163	1.2
Property rental income	**104**	102	2.0
Rail income	**124**	116	6.9
Other income	**75**	103	(31.1)
	468	484	(3.3)
Total turnover	**2,478**	2,224	11.2

Aeronautical income
In the year ended 31 December 2013, aeronautical income increased by 19.0% to £1,523 million (2012: £1,280 million) and average aeronautical income per passenger increased 15.1% to £21.06 (2012: £18.29).

The performance reflects passenger traffic growth and increases in headline tariffs. In addition, since the second quarter of 2013 the growth also reflects recovery of yield dilution in the 2011/12 regulatory year through the 'K' factor mechanism. This is combined with yield concentration in 2013 and the non-recurrence of substantial yield dilution experienced in 2012.

Retail income
The Company's retail income increased 5.9% to £487 million (2012: £460 million) and Net Retail Income (NRI) per passenger increased 2.7% to £6.38 (2012: £6.21).

Financial review *continued*

Turnover *continued*

The main segments of growth in retail income in 2013 were car parking and car rental which generated an additional £12 million. Growth in airside specialist shops income was driven by luxury retail shops which strengthened during 2013, having experienced a soft start to the year, the growth helped to offset the impact from the unplanned closure of HMV stores which went into administration in early 2013.

The rate of growth in NRI per passenger is likely to have been impacted by the shift in mix towards European traffic, as traditionally such passengers have a lower propensity to spend in Heathrow's retail outlets.

Other income

Income from activities other than aeronautical and retail marginally decreased 3.3% to £468 million (2012: £484 million).

Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items to provide a more meaningful comparison of the Company's operating costs.

In the year ended 31 December 2013, adjusted operating costs decreased 0.7% to £1,063 million (2012: £1,071 million).

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m	Change %
Employment costs	**425**	509	(16.5)
Maintenance expenditure	**161**	121	33.1
Utility costs	**87**	88	(0.1)
Rents and rates	**119**	126	(5.6)
Other general expenses	**245**	202	(21.3)
Retail expenditure	**26**	26	-
Profit on disposal of tangible fixed assets	**-**	(1)	-
Total	**1,063**	1,071	(0.7)

1 Employment costs (specifically pensions costs), for the year ended 31 December 2013, have been restated following a change in accounting policy as explained in the accounting policies note.

Employment costs continue to be a focus for the business, and major restructuring activities are taking place to deliver Heathrow's business plan for the next five years and on-going business efficiency. The Company achieved efficiencies in 2013 through management pay freezes and headcount savings, that partially offset contractually agreed pay increases and bonuses.

During the year Heathrow consolidated its baggage system maintenance contracts to a single supplier. The increase in maintenance costs in part reflects a one-off charge relating to these contract changes. The contract has already started to deliver savings in employment costs and general expenses and is expected to deliver around £100 million savings through the next regulatory period.

In 2013 general expenses increased partly due to extra costs incurred in ensuring operations were maintained during adverse weather in January.

Adjusted EBITDA

In the year ended 31 December 2013, Adjusted EBITDA increased 23% to £1,415 million (2012: £1,153 million), resulting in an Adjusted EBITDA margin of 57% (2012: 52%).

The significant increase in Adjusted EBITDA from 2012 reflects the effect of achieving turnover growth of 11% whilst decreasing adjusted operating costs by 0.7%.

Operating profit

The Company recorded an operating profit for the year ended 31 December 2013 of £853 million (2012: £532 million). The difference between Adjusted EBITDA and operating profit results from £448 million in depreciation (2012: £470 million) and a £114 million exceptional charge (2012: £151 million). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

Financial review *continued*

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %
Adjusted EBITDA	**1,415**	1,153	22.7
Depreciation	**(448)**	(470)	4.7
Exceptional items – pensions	**(76)**	(151)	50.0
Exceptional items – other	**(38)**	-	-
Operating profit	**853**	532	60.3

Depreciation

Depreciation for the year ended 31 December 2013, excluding exceptional charges, was 4.7% lower at £448 million (2012: £470 million).

Exceptional items: pensions

Items within operating profit include a £76 million non-cash pension related charge (2012: £151 million). This includes the Company's share of the movement in LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Unapproved Retirement Benefit Scheme (UURBS) and Post-Retirement Medical (PRM) Benefits pension related liabilities.

Exceptional items: other

£22 million of restructure costs were incurred due to a significant restructure of the organisation that began in 2013 as part of the programme to deliver operational efficiencies during Heathrow's next regulatory period. Due to the size and nature of the programme, these charges are classified as exceptional operating items.

In 2013, operational readiness costs of £16 million relating to Heathrow Terminal 2 were incurred which are mainly due to familiarisation, induction and training activities and the ramp up of operational costs following the move of Terminal 2 from the construction phase to the operational phase.

Capital expenditure

In the year ended 31 December 2013, the Company capitalised costs of £1,335 million (2012: £1,159 million).

The most significant areas of capital expenditure were on the new main Terminal 2 building, the second phase of Terminal 2's satellite building and the new integrated baggage system for Terminal 3.

Pension scheme

At 31 December 2013, the LHR Airports Limited defined benefit pension scheme had a deficit of £93 million (2012: £103 million) as measured under FRS 17, of which £81 million (2012: £76 million) was attributable to the Company under the Shared Services Agreement. The decrease in the Company's share of the deficit is mainly due 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.

At 31 December 2013, LHR Airports Limited's UURBS and PRM schemes had a combined deficit of £29 million (2012: deficit of £25 million) as measured under FRS17. The Company's share of this deficit amounts to £25 million (2012: deficit of £19 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 relates to the 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 per annum from January 2014 following the sale of Stansted airport. Approximately £77 million (2013: £71.6 million) in cash contributions will be met by Heathrow in 2014.

Regulatory Asset Base ('RAB')

Set out below are RAB figures of the Company at 31 December 2012 and 31 December 2013. RAB figures are utilised in calculating gearing ratios (Regulatory Asset Ratios ('RAR')) under certain of the Heathrow Airport Holdings Group's financing agreements.

	RAB £m
31 December 2012	13,471
31 December 2013	**14,585**

The increase in Heathrow's RAB during the year ended 31 December 2013 reflected the addition of approximately £1.3 billion in capital expenditure and indexation adjustments of around £370 million. The increases were partially offset by regulatory depreciation of around £585 million and a modest amount of asset disposals and RAB profiling adjustments.

Financial review *continued*

Accounting and reporting policies and procedures

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')). The Company's accounting policies and areas of significant accounting judgements and estimates are detailed within the Company financial statements.

Internal controls and risk management

Internal controls and risk management
Internal controls and risk management are managed at the Heathrow Airport Holdings Group level (the 'Heathrow Airport Holdings Group'). The Executive Committee, Board, Audit Committee ('AC') and Heathrow Finance Committee referred to below relates to the Executive Committee, Board, AC and Heathrow Finance Committee 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, 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
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 Holding 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 inform 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 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.

Assurance is provided through the management reporting processes and reports to the AC including the Sustainability and Operational Risk Committee.

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

Internal controls and risk management *continued*

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 Company's Safety Management System includes risk assessment processes for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the Company's business. The Company also operates robust asset management processes to ensure property and equipment 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 Company 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 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') regulation
As noted previously, the Company'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 Company'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 – e.g joint steering groups. When feedback is sought or processes are measured, robust processes have been put in place to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their on-going requirements are articulated and understood.

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 Company, 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 Company breaching these regulations.

Capacity shortfall
Failure to secure necessary planning permissions could lead to the Company 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 Company's ability to secure necessary planning permissions and develop capacity. The Company 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 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 Company 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 Company works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks
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 Company seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible.

Internal controls and risk management *continued*

Commercial and financial risks continued

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.

Trials are also in place to ensure existing operational resilience arrangements deployed when disruption occurs work in the new Terminal 2.

An induction programme will be undertaken for the 24,000 employees from approximately 160 organisations that will be involved in operating Terminal 2.

Risk to opening is also being managed through a phased move of airlines into Terminal 2 over a six month period. The terminal will open with a single airline and 36 flights on the first day of operation. This will be followed by a further 10 move sequences, typically every 2-3 weeks, over the following 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 – the next pay negotiations are planned for January 2014. 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 UK Border Force.

Treasury

The Company's financial risk management objectives are aligned with Heathrow Airport Holdings Limited, and also with Heathrow (SP) Limited which is the parent undertaking of the smallest group to consolidate these financial statements and the level at which financial risks for the Company are managed. The treasury policies of the SP Group are set out below.

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

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the 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 and currency risks.

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

(a) Interest rates

The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2013, fixed rate debt after hedging with derivatives represented 96% of the SP Group's total external nominal debt.

(b) Inflation

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

Internal controls and risk management *continued*

Commercial and financial risks continued

(c) Foreign currency

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

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

The SP Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under the revolving credit facility. As at 31 December 2013, cash and current asset investments were £94 million, undrawn headroom under revolving credit facilities was £2,095 million and undrawn headroom under liquidity facilities was £750 million.

(e) Counterparty credit

The SP 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 SP Group maintains a prudent split of cash and current asset investments 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-term and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or current asset investments are placed with counterparties with short-term credit ratings lower than A-2/F1. The SP 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

30 April 2014

Directors' report

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

In accordance with changes to the Companies Act 2006, the lay out of the Financial Statements for the year ended 31 December 2013 has been updated. The "Directors' report" has been replaced with "Strategic report and Directors' report" and the content of these reports have been set out in accordance with the changes introduced under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Principal activities
Heathrow Airport Limited (the 'Company') operates Heathrow airport ('Heathrow') and Heathrow Express ('HEX'), the express rail service between Heathrow and Central London. The Company is entitled to all receipts and income relating to HEX but the day-to-day operation of HEX is undertaken by Heathrow Express Operating Company Limited (a subsidiary of the Company) on behalf of the Company.

A review of the progress of the Company's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are reported in the strategic report on pages 2 to 13.

No significant changes to the activities of the Company are expected in the foreseeable future.

Results and dividends
The profit after taxation for the financial year amounted to £335 million (2012: £15 million loss).

Dividends of £360 million were paid during the year (2012: £151 million). These were used to partially fund dividends to ultimate shareholders and partially to service external debt within the Heathrow Group. The statutory results for the year are set out on page 19.

Directors
The directors who served during the year are as follows:

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

Employment policies
The Company has no direct employees. The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the Heathrow Airport Holdings Group.

Supplier payment policy
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 18 days purchases outstanding at 31 December 2013 (2012: 8 days) based on the average daily amount invoiced by suppliers during the year.

Directors' report *continued*

Donations

The Company's charitable donations for the year amounted to £1,861,450 (2012: £1,105,000).
The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows:

Hillingdon Communities Trust	£1,000,000	Heathrow Airport Limited made a 15 year commitment ending in 2017 to make an annual grant of £1 million to the Hillingdon Communities Trust. The deed of gift to the Trust carries a requirement that grants must benefit the community in the southern part of the Borough of Hillingdon including Hayes (the wards of Botwell, Townfield and Pinkwell, West Drayton, Yiewsley and the Heathrow Village).
Communities Trust	£750,000	Provides support for local community projects close to Heathrow Airport Holdings' airports with a priority on funding projects linked to education, the environment and economic generation.
Whizz-Kidz	£96,450	The principal objectives of the charity are to change the lives of mobility-impaired children and young people in the UK, by providing them with the best possible mobility equipment, training and advice.
The Groundwork South Trust	£15,000	To provide conservation, protection and improvement to the natural environment as well as implement recreational solutions which enhance social welfare in the community and also provide advancement in public education of environment and sustainability issues.

During the year Heathrow Airport Limited donated £5,000 in sponsorship money to assist in funding the West London Jobs and Apprenticeships Fair 2013, which was recorded as a political donation on the Electoral Commission's register of political donations. We disclose this £5,000 payment as a political donation for the purposes of these annual financial statements in accordance with our legal obligations.

The rules surrounding what may classified as a political donation under the Political Parties, Elections and Referendums Act 2000 and Part 14 of the Companies Act 2006 are complex. It is against the Group's policy to make political donations; however, to ensure that the Group is protected against any inadvertent minor breaches of the relevant rules, as in the case disclosed above, the Group obtained the appropriate shareholder approval in February 2012 to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years.

Internal Controls and Risk management

The Company actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Company's risk management policies can be found on pages 10 to 13 in the internal controls and risk management section of the strategic report.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies, including hedging policies, along with the Company's exposure to risk, can be found on pages 12 and 13 in the Internal controls and risk management section of the Strategic report.

Directors' indemnity

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

Auditor

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

Directors' report *continued*

Statement of disclosure of information to the Auditor

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

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

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

On behalf of the Board

José Leo
Director

30 April 2014

Company registration number: 01991017

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 judgments 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.

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

On behalf of the Board

José Leo
Director

30 April 2014

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

We have audited the financial statements of Heathrow Airport 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 opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the 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

30 April 2014

Heathrow Airport 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*	**2,478**	2,224
Operating costs – ordinary	*2*	**(1,511)**	(1,541)
Operating costs – exceptional: pensions	*3*	**(76)**	(151)
Operating costs – exceptional: other	*3*	**(38)**	-
Total operating costs		**(1,625)**	(1,692)
Operating profit		**853**	532
Impairment of fixed assets – exceptional	*3*	**-**	(5)
Net interest payable and similar charges	*4*	**(409)**	(518)
Profit on ordinary activities before taxation		**444**	9
Tax charge on profit on ordinary activities	*5*	**(109)**	(24)
Profit/(loss) on ordinary activities after taxation	*16*	**335**	(15)

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

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

Heathrow Airport 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/(loss) for the financial year	*16*	**335**	(15)
Unrealised gain on revaluation of investment properties	*6,16*	**31**	47
Total recognised gains and losses relating to the year		**366**	32

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/(loss) for the financial year	*16*	**335**	(15)
Unrealised gain on revaluation of investment properties	*6,16*	**31**	47
Capital contribution[1]	*16*	**836**	-
Dividends paid	*16*	**(360)**	(151)
Realised loss on tangible fixed assets	*16*	**-**	(1)
Net movement in shareholder's funds		**842**	(120)
Opening shareholder's funds		**1,593**	1,713
Closing shareholder's funds		**2,435**	1,593

[1] On 4 February 2013 an intercompany loan with Heathrow (AH) Limited was waived leading to a capital contribution in the Company.

There is no material difference between the historical cost profits and losses and the profit and loss account.

Heathrow Airport Limited

Balance sheet as at 31 December 2013

	Note	31 December 2013 £m	31 December 2012 £m
Fixed assets			
Tangible fixed assets	*6*	**12,829**	11,751
Investments	*7*	**4**	4
Total fixed assets		**12,833**	11,755
Current assets			
Stocks	*8*	**9**	7
Debtors (including amounts due after more than one year of £1,798 million (2012: £1,974 million))	*9*	**2,148**	2,308
Current asset investments	*10*	**75**	33
Cash at bank and in hand		**15**	1
Total current assets		**2,247**	2,349
Current liabilities			
Creditors: amounts falling due within one year	*11*	**(1,351)**	(1,197)
Net current assets		**896**	1,152
Total assets less current liabilities		**13,729**	12,907
Creditors: amounts falling due after more than one year	*12*	**(10,982)**	(11,069)
Provisions for liabilities and charges	*14*	**(312)**	(245)
Net assets		**2,435**	1,593
Capital and reserves			
Called up share capital	*15,16*	**473**	473
Revaluation reserve	*16*	**460**	429
Profit and loss reserve	*16*	**1,502**	691
Total shareholder's funds		**2,435**	1,593

The financial statements of Heathrow Airport Limited (Company registration number: 01991017) were approved by the Board of Directors and authorised for issue on 30 April 2014. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

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

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

Basis of accounting
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with applicable Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Changes in accounting policies
Following a review of accounting policies it was considered appropriate to amend the presentation of the Company'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 it provides greater clarity and is consequently 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 employment costs and reducing interest cost by £11 million compared to the amounts previously reported and reducing operating profit to £532 million from £543 million. The current year impact has been to increase employment costs, reduce the net interest cost and reduce operating profit by £7 million. There has been no impact on the balance sheet or cash flows of the Company from this change.

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

Consequently the Directors have reviewed the cash flow projections of the SP Group of which the Company forms part, taking into account:
- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall SP Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, and its forecast financial ratios and ability to access the debt markets.

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

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

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 and consists primarily of:

Aeronautical income
- Passenger charges based on the number of departing passengers on departure.
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on a combination of weight and time parked as provided.
- Other charges levied for passenger and baggage operation when these services are rendered.
- Other traffic charges.

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

Property and operational facilities

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

Rail

- Turnover from ticket sales, recognised at the time of travel.

Other

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

Exceptional items

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

Such events may include gains or losses on the disposal of businesses or assets, major reorganisation of business, 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.

Provisions to recognise the Company's liability to fund the LHR Airports Limited defined benefit pension scheme deficit or surplus and UURBS and PRM pension related liabilities under the Shared Services Agreement are also treated as exceptional. Refer to the Shared Services Agreement accounting policy.

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

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

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

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

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is valued at the reporting date by external valuers. Any surplus or deficit on revaluation is transferred to the revaluation reserve with the exception of deficits below original cost which are expected to be permanent, which are charged to the profit and loss account in the period in which they arise.

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits or losses are recognised on completion.

In accordance with Statement of Standard Accounting Practice 19 *Accounting for Investment Properties*, no depreciation is provided in respect of freehold or long leasehold investment properties.

Capitalisation of interest

Interest payable resulting from financing tangible fixed assets that are in the course of construction is capitalised whilst projects are in progress. Where assets in the course of construction are financed by specific borrowing facilities the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise, otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

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

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

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

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 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 change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

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

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

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.

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 amount of the leased asset and recognised over the lease term on the same basis as the rental income.

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

Stocks
Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value and includes all costs to bring inventories to their present location and condition.

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

Cash and current asset investments
Cash, for the purpose of the summary cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

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 of 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
Contractual income is treated as deferred income and released to the profit and loss account as earned.

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

The borrowings from group undertakings include the balance of the Borrower Loan Agreement ('BLA') payable by the Company to Heathrow Funding Limited. The advances under the BLA are issued on substantially the same terms as the new bonds issued by Heathrow Funding Limited, taking into consideration the related hedging instruments. The advances are carried at amortised cost with interest expense recognised using the effective interest rate method. The nominal amount of the index-linked borrowings is accreted for the RPI component recognised within interest payable in the profit and loss account.

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.

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

Issue costs and arrangement fees
Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

Issue costs are those that are incurred directly in connection with the issue of a capital instrument, that would not have been incurred had the instruments not been issued. These are accounted for as a deduction from the fair value of consideration received and amortised using the effective interest rate method.

Facility and arrangement fees resulting from the negotiation of finance that do not qualify as issue costs are written off to the profit and loss account as incurred.

Derivative financial instruments
The derivative financial instruments utilised by the Company are interest rate swaps and index-linked swaps. These are used to manage the interest rate risk of borrowings. Interest receivable on the instruments is calculated using a variable interest rate whereas interest payable is based on a fixed interest rate. The purpose of the swaps is to hedge the risk that arises from the borrowings with variable interest rates.

The derivative financial instruments are accounted for on an accruals basis. The net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship 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, respectively. The net interest receivable or payable accrued on derivatives is included in current debtors or current creditors on the balance sheet.

Derivative financial instruments novated from other companies within the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group') are transferred at fair value prevailing on that date. Premiums payable or receivable are amortised over the term of the financial instruments.

Shared Services Agreement ('SSA')
LHR Airports Limited employs all staff that provide services to the Company. LHR Airports Limited is the sponsor of the defined benefit pension schemes and also acts as the provider of corporate and administrative services to the Company.

Operational staff
The Company directly incurs the employment cost of services provided to them that were previously paid for by LHR Airports and recharged into the Company. Employment costs include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other of its associated expenses incurred by the employees of LHR Airports in providing services to the Company.

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

Corporate and centralised services
LHR Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the SSA with a mark-up of 7.5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the company.

Pension costs
Under the SSA the current period service cost for the LHR Airports Limited pension schemes are recharged to the Company on the basis of their pensionable salaries. This charge is included within Operating costs – ordinary. Cash contributions are made directly by the company to the LHR Airports Limited pension schemes on behalf of LHR Airports Limited.

The Company has had an obligation since August 2008 to fund or benefit from their share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and UURBS and PRM 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, except where amounts are settled or reflect cash contributions by the group to the schemes.

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

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.

Preference shares
Preference shares are classified as a liability where in substance the shares and related dividends have terms similar to a liability and not share capital. Features that indicate that presentation as a liability is appropriate include a dividend that is payable for a fixed or determinable amount at a fixed or determinable future date and where redemption is at a predetermined amount and date or at the option of the preference share holder. Where presentation as a liability is considered appropriate the associated dividend expense is shown within interest.

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

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. Interim dividends are recognised when paid.

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 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 (SP) Limited, which is the intermediate parent entity and the smallest group to consolidate these financial statements, Heathrow Finance plc and Heathrow Airport Holdings Limited, for the year ended 31 December 2013. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements (revised 1996)*. Instead, a summary cash flow statement has been provided on a voluntary basis in a note to the financial 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 believes that the following areas present the greatest level of uncertainty.

Investment properties
Investment properties were valued at a fair value by CBRE Limited, Chartered Surveyors. The valuations were prepared in accordance with relevant accounting standards and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 81% (2012: 81%) of the investment properties comprise car parks and airside assets at Heathrow airport ('Heathrow') that are considered less vulnerable to market volatility than the overall market. Independent valuations were obtained for 100% of the investment properties.

Capitalisation
Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Examples where judgement has been exercised in the year include capitalised interest, where judgement is exercised in relation to the applicable interest rate and the assessment of assets in the course of construction (AICC) projects on hold, and operational readiness activities where judgement is exercised to determine costs that are directly attributable to the assets under construction.

Pensions
Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at period end and charges to the income statement. 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, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the exceptional item-pension line in the Profit and Loss Account.

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

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

1 Segment information

The directors consider the business has only one segment. All of the Company's turnover arises in the United Kingdom and relates to continuing operations. Additional details of the turnover generated by each of the Company's key activities are given below:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Turnover		
Aeronautical income	**1,523**	1,280
Retail income	**487**	460
Operational facilities and utilities income	**165**	163
Property rental income	**104**	102
Heathrow Express rail income[1]	**124**	116
Other income	**75**	103
	2,478	2,224

1 The Company is entitled to all receipts relating to HEX, the express rail service between Heathrow and Central London, but the day-to-day operation of HEX is undertaken by Heathrow Express Operating Company Limited, on behalf of the Company, for which a management fee is charged and included within 'Intra-group charges/other' in Note 2.

2 Operating costs - ordinary

	Year ended 31 December 2013 £m	Restated[2] Year ended 31 December 2012 £m
Wages and salaries	**302**	231
Social security	**30**	20
Pensions	**62**	43
Other staff related costs	**25**	8
Employment costs	**419**	302
Maintenance expenditure	**161**	121
Utility costs	**87**	88
Rents and rates	**119**	126
General expenses	**161**	120
Retail expenditure	**26**	26
Intra-group charges/other	**6**	207
Police costs	**29**	28
Aerodrome navigation service charges	**55**	54
Depreciation[1]	**448**	470
Gain on disposal of tangible fixed assets	**-**	(1)
	1,511	1,541

1 Depreciation includes a £2 million impairment of investment properties.

2 Comparative figures for the year ended 31 December 2012 have been restated following a change in accounting policy as explained in the accounting policies note.

2. Operating costs - ordinary *continued*

For 2013, changes to the wider Heathrow group, including the disposal of Stansted Airport, have led to the Company incurring more of its operating costs directly, rather than through intra-group recharges. Operating costs have been presented above in a manner consistent with that presented in previous years. However, to enable more meaningful comparison the cost items have also been presented below by their underlying nature after taking into account the changes to group recharges and capitalisation of certain cost items.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Employment costs	**419**	302
Maintenance expenditure	**161**	121
Utility costs	**87**	88
Rents and rates	**119**	126
General expenses	**251**	409
Retail expenditure	**26**	26
Disposal of fixed assets	**-**	(1)
Total adjusted operating costs	**1,063**	1,065
Depreciation	**448**	470
Total operating costs	**1,511**	1,541

Rentals under operating leases

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating costs include:		
Other operating leases[1]	**33**	30
Land and buildings[2]	**15**	15

1 A significant portion of the operating rental costs, classified as 'other operating leases' relates to electricity supply equipment at the airports leased on agreement with UK Power Networks Services Ltd ('UPNS'). The remaining cost relates to vehicle leases.

2 The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

2 Operating costs - ordinary *continued*

Auditor's remuneration

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts:		
Audit of the Company pursuant to legislation	**0.4**	0.4
Non audit fees payable to the Company's auditor and their associates for other services specific to the Company:		
Audit related assurance services	**0.3**	0.2
Other tax services	**0.1**	-
Other assurance services	**0.1**	0.2
Total non-audit fees	**0.5**	0.4
Total fees	**0.9**	0.8

Employee information

The Company has no employees (2012: nil). Staff engaged in the operation of Heathrow airport are employed by LHR Airports Limited but the Company bears the cost of these employees. The average number of employees of LHR Airports Limited engaged in the operation of Heathrow during the year was 5,921 (2012: 5,278). Changes to the structure of operational staff and corporate services resulted in centralised service staff being associated to the operation of Heathrow therefore increasing its employee numbers for 2013.

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Directors' remuneration

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Directors' remuneration		
Aggregate emoluments[1 2 3]	**5,052**	2,405
Value of company pension contributions to defined contribution scheme	**477**	330
Termination benefits	**758**	-
	6,287	2,735

[1] For the year ended 31 December 2013 aggregate emoluments includes accrued salaries, allowances, bonuses and amounts payable under Long Term Incentive Plans ('LTIP').

[2] £1,160,000 of bonus was paid in cash in 2013 (2012: £417,000).

[3] From 1 October 2013 all members of the Heathrow Airport Limited Executive Committee became directors of the Company.

José Leo and Colin Matthews were directors of a number of companies within the Heathrow Airport Holdings Group, including LHR Airports Limited, during the year. Their remuneration for the year ended 31 December 2013 was disclosed in the financial statements of Heathrow Airport Holdings Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided and therefore their remuneration is not included in the numbers above.

The directors participate in various Long Term Incentive Performance Cash Plans (the 'Plans') operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on equity and other operational targets over a three year period. For the year ended 31 December 2013, the directors' remuneration includes £345,000 payable in 2013 (2012: £262,000 paid in 2013) in respect of the 2010 Plans after certain targets were met over the three year period from 2011 to 2013. As the financial performance in respect of the 2012 and 2013 Plans is uncertain at this stage, no value in relation to these awards is included above.

2 Operating costs - ordinary *continued*
Directors' remuneration continued

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Highest paid director's remuneration		
Aggregate emoluments[1 2]	**811**	563
Value of pension contributions to defined contribution scheme	**33**	58
	844	621

[1] For the year ended 31 December 2013 aggregate emoluments includes accrued salary, allowances, bonus and amounts payable under LTIP.
[2] £169,000 of bonus was paid in cash in 2013 (2012: £186,000).

The highest paid director also participates in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The directors' remuneration includes £86,000 payable in 2014 (2012: £58,000 paid in 2013) in respect of the 2011 LTIP Plan after certain targets were met over the three year period from 2011 to 2013. As the financial performance in respect of the 2012 and 2013 Plans is so uncertain at this stage, no value in relation to these awards is included above.

	Year ended 31 December 2013 Number	Year ended 31 December 2012 Number
Number of directors who:		
are members of a defined benefit pension scheme	**4**	3
are members of a defined contribution pension scheme	**6**	4

Two of the directors (2012: none) exercised share options during the year in respect of their services to the Company and no shares (2012: none) were received or became receivable under Plans.

3 Exceptional items

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating costs – exceptional: pensions	**(76)**	(151)
Operating costs – exceptional: restructuring	**(22)**	-
Operating costs – exceptional: Terminal 2 operational readiness	**(16)**	-
Total operating exceptional items	**(114)**	(151)
Non- operating exceptional impairment of fixed assets	**-**	(5)
Total exceptional items	**(114)**	(156)

Operating costs – exceptional: pensions
During 2013 there was a net exceptional pension charge of £76 million (2012: £151 million). This includes the Company's share of the movement in the LHR Airports Limited defined benefit pension scheme, UURBS and PRM pension related liabilities.

Operating costs – exceptional: other
In 2013, £22 million of restructure costs were incurred due to a significant restructure of the organisation that began in 2013 as part of the programme to deliver operational efficiencies during Heathrow's next regulatory period. Due to the size and nature of the programme, these charges are classified as exceptional operating items.

In 2013, operational readiness costs of £16 million relating to Heathrow Terminal 2 were incurred which are mainly due to familiarisation, induction and training activities and the ramp up of operational costs following the move of Terminal 2 from the construction phase to the operational phase.

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

4 Net interest payable and similar charges

	Note	Year ended 31 December 2013 £m	Restated[4] Year ended 31 December 2012 £m
Interest receivable			
Interest receivable from other group undertakings[1]		**130**	141
Interest receivable on bank deposits		**1**	-
Net pensions finance income		**7**	11
		138	152
Interest payable			
Interest payable to other group undertakings[2]		**(669)**	(623)
Interest on bank borrowings		**(15)**	(34)
Facility fees and other charges		**(16)**	(18)
Net interest payable on derivative financial instruments		**(17)**	(28)
Dividend payable on irredeemable preference shares of £0.01 each: 4.55p per share (2012: 5.34p per share)		**(1)**	(1)
Unwinding of discount on provision		**(1)**	-
		(719)	(704)
Fair value gain/(loss) on financial instruments		**8**	(66)
Interest capitalised[3]	*6*	**164**	100
Net interest payable and similar charges		**(409)**	(518)

1 These amounts relate primarily to interest accrued on balances due from Heathrow (SP) Limited (Note 9).
2 These amounts relate mainly to interest due on the loan from Heathrow (AH) Limited and BLA with Heathrow Funding Limited (Note 13).
3 Following significant refinancing activity during the year, the Company has reassessed the applicable pool of general borrowing costs upon which interest has been capitalised. This has led to an increase in the capitalised interest rate to 6.04% compared to 4.84% for the previous year.
4 Comparative figures for the year ended 31 December 2012 have been restated following a change in accounting policy as explained in the accounting policies note.

5 Tax charge on profit on ordinary activities

	Note	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Current tax			
Group relief payable		**60**	86
Adjustments in respect of prior periods		**2**	(1)
Total current tax charge		**62**	85
Deferred tax			
Origination and reversal of timing differences:			
Current period charge/(credit)		**71**	(44)
Prior period charge		**(5)**	(1)
Change in tax rate		**(19)**	(16)
Total deferred tax charge/(credit)	*14*	**47**	(61)
Tax charge on profit on ordinary activities		**109**	24

Reconciliation of tax 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 and prior years 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	**444**	9
Tax charge on profit on ordinary activities at 23.25% (2012: 24.5%)	**103**	2
Effect of:		
Permanent differences	**20**	38
Capital allowances (in excess of)/less than depreciation	**(44)**	43
Capitalised interest	**(33)**	(23)
Other short term timing differences	**14**	26
Adjustments to tax charge in respect of prior periods	**2**	(1)
Current tax charge for the year	**62**	85

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will change to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. Other than this change and the unprovided deferred tax discussed at note 14, there are no items which would materially affect the future tax charge.

6 Tangible fixed assets

	Note	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfield £m	Rail assets £m	Other land and buildings £m	Plant equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation										
1 January 2013		1,698	49	8,024	1,061	1,380	108	636	2,614	15,570
Additions at cost		1	-	9	-	-	-	5	1,320	1,335
Transfers to completed assets		11	-	226	11	44	18	88	(398)	-
Interest capitalised	*4*	-	-	-	-	-	-	-	164	164
Impairment[1]		(2)	-	-	-	-	-	-	-	(2)
Disposals		-	-	(96)	-	(29)	-	(190)	-	(313)
Reclassification		(1)	-	-	-	-	1	-	-	
Revaluation	*16*	31	-	-	-	-	-	-	-	31
31 December 2013		1,738	49	8,163	1,072	1,395	127	539	3,700	16,783
Depreciation										
1 January 2013		-	-	(2,646)	(282)	(380)	(39)	(471)	(2)	(3,819)
Depreciation charge	*2*	-	-	(311)	(29)	(41)	(6)	(61)	-	(448)
Disposals		-	-	94	1	29	-	189	-	311
31 December 2013		**-**	**-**	(2,863)	(310)	(392)	(45)	(343)	(2)	(3,954)
Net book value 31 December 2013		**1,738**	**49**	**5,300**	**763**	**1,003**	**82**	**197**	**3,698**	**12,829**
Net book value 31 December 2012		1,698	49	5,378	780	1,000	69	165	2,612	11,751

[1] Impairment of car park and Aer Lingus CIP Lounge in Terminal 1

Valuation

Investment properties and land held for development were valued at open market value by CBRE Limited, Chartered Surveyors at £1,787 million (2012: £1,747 million). These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, *inter alia*, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a surplus of £31 million (2012: surplus of £47 million) has been recognised in the revaluation reserve.

Remaining terminal complexes, airfield infrastructure, plant and equipment and other land and buildings have been shown at historical cost.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2013 was £612 million (2012: £602 million).

Notes to the Financial Statements for the year ended 31 December 2013 *continued*

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

Assets in the course of construction
Assets in the course of construction primarily consist of projects for work on the new Terminal 2 and its satellite building. They also include the Terminal 3 Integrated baggage project which incorporates a new baggage facility.

Capitalised interest
Included in the net book value of fixed assets are interest costs of £1,064 million (2012: £935 million). £164 million (2012: £100 million) has been capitalised in the year at a capitalisation rate of 6.04% (2012: 4.84%) based on a weighted average cost of borrowings.

A tax deduction of £164 million (2012: £100 million) for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

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

	31 December 2013 £m	31 December 2012 £m
Cost or valuation	**2,444**	2,388
Accumulated depreciation	**(243)**	(224)
Net book amount	**2,201**	2,164

A significant proportion of freehold property is occupied by third parties under concession and management agreements.

7 Investments

	£m
Cost as at 1 January and 31 December 2013	**4**

Subsidiary	**Nature of business**	**% of share capital held**	**Class of share**
Heathrow Express Operating Company Limited	Railway Operator	100	Ordinary shares of £1 each

In the opinion of the directors, the aggregate value of the shares in the subsidiary undertaking is not less than the aggregate of the amount at which they are stated in the Company's Balance sheet.

8 Stocks

	31 December 2013 **£m**	31 December 2012 £m
Raw materials and consumables	**9**	7

The replacement cost of raw materials and consumables at 31 December 2013 and 31 December 2012 was not materially different from the amount at which they are included in the Balance sheet.

9 Debtors

	31 December 2013 **£m**	31 December 2012 £m
Due within one year:		
Trade debtors	**166**	156
Amounts owed by group undertakings – interest free[1]	**10**	10
Amounts owed by group undertakings – interest bearing	**1**	-
Other debtors	**35**	34
Prepayments	**61**	40
Interest receivable	**49**	57
Net interest receivable on derivative financial instruments	**25**	20
Derivative interest prepayment	**3**	17
	350	334
Due after more than one year:		
Amounts owed by group undertakings – interest bearing[2]	**1,761**	1,946
Derivative financial instruments	**-**	1
Derivative interest prepayment	**-**	2
Prepaid debt fees	**21**	10
Prepayment	**16**	15
	1,798	1,974
Total debtors	**2,148**	2,308

[1] Amounts owed by group undertakings – interest free largely relates to external payments received by LHR Airports Limited under the SSA on behalf of the Company which will be remitted in due course.

[2] Amounts owed by group undertakings – interest bearing represents a loan receivable from Heathrow (SP) Limited. It has a fixed interest rate of 7.57%.

10 Current asset investments

	31 December 2013 **£m**	31 December 2012 £m
Short-term deposits	**75**	33

Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short and long-term credit ratings. Of these deposits, counterparties with a short term credit rating of A-1+ held assets of £75 million as at 31 December 2013 (2012: A-1+ held assets of £33 million)

Notes to the Financial Statements for the year ended 31 December 2013 *continued*

11 Creditors: amounts falling due within one year

	Note	**31 December 2013 £m**	31 December 2012 £m
Bank overdraft		**-**	24
Trade creditors[1]		**122**	97
Capital creditors		**301**	264
Amounts owed to group undertakings – interest free[2]		**88**	16
Amounts owed to group undertakings – interest bearing[3]		**-**	32
Borrowings from group undertakings – interest bearing	*13*	**520**	439
External borrowings	*13*	**39**	39
Corporation tax payable		**6**	6
Group relief payable		**28**	42
Other creditors		**8**	8
Other taxes and social security costs		**9**	6
Deferred income		**27**	31
Net interest payable on derivative financial instruments		**22**	10
Interest payable		**181**	183
		1,351	1,197

1 Trade creditors are non-interest bearing and generally on 30-day terms.
2 Amounts owed to group undertakings – interest free largely relate to external payments made by LHR Airports Limited under the SSA on behalf of the Company.
3 Amounts owed to group undertakings – interest bearing represents a loan payable to Heathrow Express Operating Company Limited accruing interest at Bank of England base rate + 1.5% and a loan payable to Heathrow Funding Limited.

12 Creditors: amounts falling due after more than one year

	Note	**31 December 2013 £m**	31 December 2012 £m
Loans from Heathrow Funding Limited	*13*	**10,282**	10,067
External borrowings	*13*	**255**	653
Derivative financial instruments		**440**	345
Other creditors		**5**	4
		10,982	11,069

Derivative financial instruments not included at fair value

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

Interest rate and index linked swaps

As at 31 December 2013, the Company had interest rate swap contracts outstanding with bank counterparties with notional values totaling £310 million (2012: £310 million). The swaps have fixed interest payments at rates varying from 4.6% to 5.1% and floating interest receipts based on three and six month LIBOR rates. At that date, these financial instruments had a mark-to-market liability of £56 million (2012: £80 million).

Heathrow Funding Limited has entered into interest rate and index linked swaps with external counterparties which have been issued to the Company as back-to-back hedges. As at 31 December 2013, the total notional amount of back-to-back interest rate swaps was £2,026 million which had a mark-to-market liability of £155 million (2012: £2,026 million notional with a mark-to-market liability of £322 million) and the total notional amount of back-to-back index linked swaps was £3,373 million which had a mark-to-market liability of £437 million (2012: £3,173 million notional with a mark-to-market liability of £214 million).

Foreign exchange contracts

Foreign exchange contracts are used to manage foreign currency exposures relating to future capital expenditure. As at 31 December 2013, the Company had various foreign exchange contracts with a total notional amount in Sterling terms of £21 million which had a fair value gain of £0.2 million (2012: £34 million notional with a fair value gain of £nil million).

13 Borrowings

	31 December 2013 **£m**	31 December 2012 £m
Current borrowings		
Secured		
Bank loans	**39**	39
Borrower Loan Agreement advances from Heathrow Funding Limited	**495**	429
Unsecured		
Loan from Heathrow (AH) Limited	**25**	10
Total current borrowings	**559**	478
Non-current borrowings		
Secured		
Borrower Loan Agreement advances from Heathrow Funding Limited	**10,282**	10,066
Capital expenditure facility	**-**	-
Revolving credit facility	**80**	290
Other bank loans	**175**	363
Total non-current borrowings	**10,537**	10,719
Total borrowings	**11,096**	11,197

Borrowings from group undertakings

Unsecured borrowings from group undertakings represent the loan advanced by parent, Heathrow (AH) Limited, to the Company. The loan bears an interest rate of 7.57% per annum.

During the year, following new bond issues by Heathrow Funding Limited, further advances were made to the Company for a total amount of £3,077 million, net of transaction costs. In the same period, the Company made repayments of £396 million.

The effective interest rate on the BLA advances varies between 2.64% and 7.20%.

All of the above facilities are carried at amortised cost.

The Company, had £2,095 million undrawn committed borrowing facilities available as at 31 December 2013 (2012: £1,693 million).

In addition, as at 31 December 2013, there was a gross overdraft limit up to a maximum gross overdraft balance of £10 million (2012: restated £10 million).

Notes to the Financial Statements for the year ended 31 December 2013 *continued*

14 Provisions for liabilities and charges

	Deferred tax (a) £m	Reorganisation Costs (b) £m	Pension Costs (c) £m	Other (d) £m	Total £m
1 January 2013	143	2	95	5	245
Utilised in the year	-	(4)	-	(1)	(5)
Transfers in/(out)	-	(22)	-	12	(10)
Charged to profit and loss account	47	24	11	-	82
Released to profit and loss account	-	-	-	(1)	(1)
Unwinding of discount	-	-	-	1	1
31 December 2013	**190**	-	**106**	**16**	312

(a) Deferred tax
Analysis of the deferred tax balances is as follows:

	31 December 2013 £m	31 December 2012 £m
Excess of capital allowances over depreciation	**212**	162
Other timing differences	**(22)**	(19)
	190	143

	Unprovided	
	31 December 2013 £m	31 December 2012 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**170**	201
Tax on rolled-over gains if replacement assets were sold at their current valuations	**7**	8
	177	209

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided for is £177 million (2012: £209 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

The Finance Act 2013 enacted a reduction in the rate of corporation tax to 21% from 1 April 2014 and 20% 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 liability of £19 million, with £19 million credited to the profit and loss account.

(b) Reorganisation costs
The costs associated with the Heathrow Airport Holdings Group's reorganisation programmes primarily relate to various restructuring processes designed to reduce the size and cost of the organisation. These costs were fully utilised in 2013.

(c) Pension costs
The closing provision is the share of the net deficit of the LHR Airports Limited defined benefit pension scheme, UURBS and PRM pension liabilities allocated to the Company.

At 31 December 2013, £81 million represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2012: £76 million). The remaining £25 million (2012: £19 million) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to UURBS and PRM pension liabilities.

(d) Other
This largely relates to ongoing maintenance agreements in connection with the M25 spur road.

15 Share capital

	£
Called up, allotted and fully paid	
1 January 2013:	
1,575,570,317 ordinary shares of £0.30 each	472,671,095
100,000 preference share – redeemable of £1 each	100,000
21,960,014 preference shares – irredeemable of £0.01 each	219,600
31 December 2013:	
1,575,570,317 ordinary shares of £0.30 each	**472,671,095**
100,000 preference shares – redeemable of £1 each	**100,000**
21,960,014 preference shares – irredeemable of £0.01 each	**219,600**

16 Reserves

	Share Capital £m	Revaluation reserve £m	Profit and loss reserve £m	Total £m
1 January 2013	473	429	691	1,593
Capital contribution[1]	-	-	836	836
Dividends paid[2]	-	-	(360)	(360)
Profit for the financial year	-	-	335	335
Unrealised gain on revaluation of investment properties	-	31	-	31
31 December 2013	**473**	**460**	**1,502**	**2,435**

[1] On 4 February 2013 an intercompany loan with Heathrow (AH) Limited was waived leading to a capital contribution in the Company.

[2] During the year ended 31 December 2013, the Company paid dividends of £360 million to Heathrow (AH) Limited being £24 million on 24 January 2013, £99 million on 14 February 2013, £64 million on 27 June 2013, £83 million on 11 July 2013, £48 million on 18 September 2013 and £42 million on 20 December 2013.

17 Commitments

Commitments for capital expenditure

	31 December 2013 £m	31 December 2012 £m
Contracted for, but not accrued:		
Terminal 2	**58**	625
Western baggage product	**42**	52
Terminal restoration and modernisation	**37**	29
Capacity optimisation	**33**	20
IT projects	**14**	15
	184	741
Other projects	**24**	45
	208	786

Commitments under operating leases

At 31 December 2013, the Company was committed to making the following payments during the next year in respect of operating leases:

	31 December 2013		31 December 2012	
	Land & buildings £m	**Other leases £m**	Land & buildings £m	Other leases £m
Leases which expire:				
within one year	**2**	**-**	-	-
within two to five years	**8**	**-**	2	-
after five years	**4**	**34**	12	32
	14	**34**	14	32

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

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

Commitments under contractual obligations

The Company had a contractual commitment to purchase electricity that was used to satisfy physical delivery requirements for electricity usage of the Company until March 2013. The contract has now expired and so the outstanding commitment under the contract at 31 December 2013 was nil (2012: £4 million).

Other commitments

The Company had operated blight compensation schemes relating to properties that might be affected by potential future runway developments at Heathrow. However, these schemes were closed following the change in government policy in relation to runway developments in South East England. Heathrow had a remaining commitment to purchase one property at 31 December 2012; this was completed in May 2013.

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

17 Commitments *continued*

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 relates to the 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 per annum from January 2014 following the sale of Stansted airport. Approximately £77 million in cash contributions will be met by Heathrow in 2014.

18 Contingent liabilities

The Company has contingent liabilities arising in the normal course of business amounting to £0.5 million at 31 December 2013 (2012: £0.5 million).

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

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

BAA Pension Trust Company Limited has a right to receive up to approximately £289 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

19 Ultimate parent undertaking

The immediate parent undertaking of the Company is Heathrow (AH) 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 Holdings 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 (SP) 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 Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2013.

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

20 Summary cash flow statement

	Year ended 31 December 2013 £m	Restated[2] Year ended 31 December 2012 £m
Operating profit	**853**	532
Adjustments for:		
Depreciation (including exceptional depreciation)	**448**	470
Gain on disposal of tangible fixed assets	**-**	(1)
Working capital changes:		
Decrease in stock and debtors	**(34)**	11
Increase in creditors	**63**	(10)
Increase in provisions	**9**	(4)
Difference between pension charge and cash contributions	**(58)**	(26)
Exceptional pension charge	**76**	151
Net cash inflow from operating activities	**1,357**	1,123
Net interest paid	**(469)**	(363)
Taxation - Group relief paid	**(76)**	(75)
Net capital expenditure	**(1,294)**	(1,140)
Dividends paid	**(360)**	(151)
Net cash outflow before use of liquid resources and financing	**(842)**	(606)
Management of liquid resources		
Increase in short term deposits	**(42)**	(11)
Financing		
(Repayment)/drawdown of revolving credit facility	**(227)**	307
(Repayment)/drawdown of capital expenditure facility	**-**	(1,395)
Repayment of other facilities and other items	**(191)**	(544)
Swaps novated from Heathrow Funding Limited	**(2)**	104
Cancellation and restructuring of derivatives	**-**	(98)
Net movement in amounts with group undertakings	**683**	2,298
Capital contribution	**836**	-
Settlement of accretion on index-linked instruments	**(177)**	(80)
Decrease in cash[1]	**38**	(25)

1 For the year ended 31 December 2013, included in Creditors: amounts falling due within one year is a bank overdraft of £Nil (2012: £24 million).

2 Operating profit has been restated. Pension finance income has been reclassified from operating costs to interest receivable.

Liquid resources are defined in the Accounting policies under ‘Cash and current asset investments’.

21 Post Balance Sheet Events

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). The main changes to the CAA’s previous proposal were an increase of 5.7 million passengers to the traffic forecast, and a 25 basis point reduction in the assumed cost of capital. In addition, the duration of the next regulatory period has been amended to 4 years and 9 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 that took effect from 1 April 2014, when the previous regulatory settlement ended.

On 20 February 2014, the board approved the payment of a £59m dividend to its immediate parent company, Heathrow (AH) Limited.