Heathrow Airport Holdings Limited

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

Company registration number: 05757208

Heathrow Airport Holdings Limited

Contents

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Heathrow Airport Holdings Limited

Strategic report

Heathrow Airport Holdings Limited ('Heathrow Airport Holdings' or the 'Company', formerly BAA Limited) is the holding company of a group of companies that provide and manage airport facilities in the UK , particularly Heathrow airport, the third busiest airport in the world in terms of passenger traffic. The Heathrow Airport Holdings group (the 'Group') is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

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

This Strategic report is presented in three sections:
Management review – overview of the year ended 31 December 2013, along with the key factors likely to impact the Group 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 Group as at that date. The Group's accounting and reporting policies and procedures are also considered;
Internal controls and risk management – outline of the Heathrow Airport Holdings Group's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the Heathrow Airport Holdings Group Executive Committee.

Management review

Review of 2013

In order to provide a more meaningful comparison of the Group's performance between 2012 and 2013 the information presented below focuses on the adjusted performance of the Group's continuing operations, excluding the operations of Stansted Airport Limited ('Stansted airport'), which was classified as held-for-sale in 2012 and sold on 28 February 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. In 2013, the Group's focus on Heathrow increased further as Stansted airport was sold for £1.5 billion. 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 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') begins 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 experiences 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 will take effect from 1 April 2014. The CAA has set a tough settlement for Q6 which Heathrow is reviewing in detail.

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 a third runway to the north west of the airport was shortlisted.

Management review *continued*

Key features of the year *continued*

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

Passenger traffic for the year ended 31 December 2013 at the Group's airports is analysed below:

Passengers by airport (millions)	**Year ended 31 December 2013**	Year ended 31 December 2012	Change[1] (%)
Heathrow	**72.3**	70.0	3.4
Glasgow	**7.4**	7.2	2.8
Aberdeen	**3.5**	3.4	3.8
Southampton	**1.7**	1.7	1.7
Total other airports passengers[1]	**12.6**	12.2	2.9
Total passengers[1]	**84.9**	82.2	3.3
Total passengers by market served (all airports) (millions)			
UK	**11.9**	11.4	4.2
Europe	**34.7**	33.3	4.1
North America	**17.0**	16.6	2.2
Asia/Pacific	**10.3**	9.8	5.3
Middle East	**6.3**	5.9	5.6
Africa	**3.6**	4.1	(10.3)
Latin America	**1.1**	1.0	5.1
Total passengers[1]	**84.9**	82.2	3.3

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

In the year ended 31 December 2013, the Group's traffic increased 3.3% to 84.9 million passengers (2012: 82.2 million restated). The performance was driven by Heathrow where traffic was up 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 Heathrow's 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%.

Heathrow

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 reflecting 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 through 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).

Other airports

Across the Group's three other airports of Glasgow, Aberdeen and Southampton, traffic increased 2.9% to 12.6 million passengers (2012: 12.2 million). Aberdeen's traffic was up 3.8% to a record 3.5 million passengers (2012: 3.4 million) driven by the strength of the local energy based economy and continued route development. Glasgow's traffic was up 2.8% to 7.4 million passengers (2012: 7.2 million) driven by increased capacity provided by Jet2 and the addition of new carriers, Wizz Air and Lufthansa, on European routes. Southampton airport experienced a 1.7% increase in traffic to 1.7 million passengers (2012: 1.7 million) with performance driven by higher Flybe load factors.

Management review *continued*

Transforming the Group's airports

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 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 the 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 surrounding infrastructure. Remaining activities include commissioning lifts, escalators and fire alarms; completing 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.

The project moved on time from the construction phase to the operational readiness phase in November 2013. Extensive trials 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 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 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 through the airport continued to receive significant 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 Airports Council International ('ACI') Europe Awards: Europe's Best Airport (with over 25 million annual passengers).

Underpinning these endorsements, in the independent Airport Service Quality survey, directed by 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 ever 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 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 a key priority of the business and a range of initiatives have been implemented to improve performance. In order to meet increased passenger volumes, additional security officers are being recruited and further security lanes are being introduced during 2014.

Other Airports

At the Group's three other airports of Glasgow, Aberdeen and Southampton the level of departure punctuality remain high with both Glasgow and Aberdeen improving on their 2012 scores.

Southampton achieved its highest average ASQ survey score for overall passenger satisfaction in 2013.

Regulatory and governmental developments

Heathrow's development for the next 5 years

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

On 30 April 2013, the CAA published Initial Proposals for Q6 proposing price controls, a change to the maximum allowable yield per passenger of RPI minus 1.3% per year and a draft licence. In response to the Initial Proposals, Heathrow refreshed its plans which included increased efficiency savings of £427 million and updated passenger forecasts. The CAA published Final Proposals for Q6 on 3 October 2013 which proposed a change to the maximum allowable yield per passenger of RPI +0% per year and assumed a capital investment plan of £2.885 billion.

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 and this will take effect from 1 April 2014, when the previous regulatory settlement will end. Heathrow and other parties with a qualifying interest have until 27 March 2014 to seek permission to appeal the decision on the price controls.

Airports Commission

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

On 17 December 2013, the Commission published its interim report on the steps needed to maintain the UK's global hub status. The Commission stated that there is a clear case for at least one net additional runway in London and the South East by 2030 and shortlisted potential sites for further analysis and assessment: 1) a 3,500 metre runway proposed by Heathrow located 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 and is designed to evolve to four runways if required.

The north west runway option is to the west of the short third runway proposal under the 2003 Air Transport White Paper. With a north west third runway there will be 15% fewer people within Heathrow's noise footprint in 2030 than today. This is due to its positioning further from London, quieter new generation aircraft and changes in operating procedures. The option maintains the principle of runway alternation to provide periods of respite from noise for all communities around Heathrow.

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

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

Management review *continued*

Outlook
The Group expects continued growth in revenue, Adjusted EBITDA and operating cash flow in 2014, primarily driven by higher passenger traffic, increased aeronautical charges and operating efficiencies at Heathrow, which in combination will mitigate costs related to operating an additional terminal as Heathrow Terminal 2 opens.

Traffic momentum in early 2014 has remained strong and the incremental change to the tariff formula for Heathrow's regulatory period beginning 1 April 2014, recently announced by the CAA, does not materially impact previous expectations for the Group's 2014 financial performance.

Therefore at this early stage of the year, the Group is on track to deliver further improvement in financial performance in 2014.

Heathrow Airport Holdings Limited

Financial review

Introduction
The following financial review, based on the consolidated financial statements of the Group, provides commentary on the performance of the Group's operations.

Basis of preparation of statutory results
A number of significant events which are highlighted in the Management review and Financial review have impacted the way in which the statutory financial results for 2013 have been presented.

- *Discontinued operations*
  - On 28 February 2013 the Group completed the disposal of Stansted airport to Manchester Airports Group for a cash consideration of £1,500 million. Stansted airport had been classified as held-for-sale in 2012.
  - As required under IFRS the results and performance of this airport is included in the results and cash flows of discontinued operations and is therefore reported separately in the Group's consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows.
    - Exceptional items and certain re-measurements includes £148 million profit on disposal of discontinued operations.

- *Continuing operations*
  - Exceptional items and certain re-measurements include the following:
    - £46 million exceptional items relating to restructuring costs, operational readiness costs for Heathrow Terminal 2 and the expensing of VAT costs;
    - £77 million fair value gains arising from the revaluation of investment properties; and
    - £69 million fair value loss on financial instruments.

Basis of presentation of financial results
In order to provide a more meaningful comparison performance between 2012 and 2013, the information presented below focuses on the adjusted performance of the Group's continuing operations. The review presented excludes other operations that have been sold, primarily Stansted airport.

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m	Change %
Continuing operations			
Revenue	**2,652**	2,362	12.3
Adjusted operating costs[2]	**(1,165)**	(1,136)	2.6
Adjusted EBITDA[3]	**1,487**	1,226	21.3
Exceptional items	**(46)**	-	n/a
EBITDA	**1,441**	1,226	17.5
Fair value gain on investment properties	**77**	49	57.1
Depreciation and amortisation	**(491)**	(518)	(5.2)
Operating profit	**1,027**	757	35.7
Exceptional impairment	**-**	(5)	n/a
Net finance cost	**(634)**	(714)	(11.2)
Fair value (loss)/gain on financial instruments	**(69)**	67	n/a
Profit before tax	**324**	105	(208.6)
Tax credit	**133**	101	31.7
Profit for the year	**457**	206	121.8
Profit from discontinued operations[4]	**252**	103	144.7
Consolidated profit for the year	**709**	309	129.4

1 The income statement for the year ended 31 December 2012 has been restated following the adoption of IAS 19R, which affected the measurement and presentation of pension-related gains and losses, and IAS 12A, which affected the measurement of deferred tax on investment properties. Refer to the Accounting policies for further details.
2 Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
3 Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.
4 Includes primarily the results of Stansted and Edinburgh airports, and adjustments relating to previous disposals as a result of their classification as discontinued operations.

Financial review *continued*

Revenue

In the year ended 31 December 2013, revenue increased 12.3% to £2,652 million (2012: £2,362 million). This reflects increases of 17.9%, 5.7% and 3.1% in aeronautical, retail and other income respectively.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %
Aeronautical income	**1,619**	1,373	17.9
Retail income	**538**	509	5.7
Other income	**495**	480	3.1
Total revenue	**2,652**	2,362	12.3

Aeronautical income

Aeronautical income increased 17.9% to £1,619 million (2012: £1,373 million). Average aeronautical income per passenger increased 14.2% to £19.07 (2012: £16.71).

Aeronautical income summary by airport

	Aeronautical income			**Per passenger[1]**		
	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %	**Year ended 31 December 2013 £**	Year ended 31 December 2012 £	Change %
Heathrow	**1,523**	1,280	19.0	**21.06**	18.29	15.1
Glasgow	**45**	44	2.3	**6.17**	6.16	0.2
Aberdeen	**35**	33	6.1	**9.95**	9.77	1.8
Southampton	**16**	16	-	**9.31**	9.79	(4.8)
Total other airports	**96**	93	3.2	**7.65**	7.66	(0.2)
Total airports	**1,619**	1,373	17.9	**19.07**	16.71	14.2

1 Figures calculated using the income figures included in the accounts of the relevant operating company (rounded to millions for Heathrow and rounded to thousands for Glasgow, Aberdeen and Southampton airports) and un-rounded passenger numbers.

Heathrow

Heathrow's aeronautical income increased 19.0% to £1,523 million (2012: £1,280 million). 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.

Other airports

At the Group's other airports, aeronautical income increased 3.2% to £96 million (2012: £93 million) whilst income per passenger decreased 0.2% to £7.65 (2012: £7.66).

Retail income

The Group's retail business enjoyed another good year in 2013 with a 2.6% increase in net retail income per passenger to £6.05 (2012: £5.90) driving a 5.7% increase in retail income to £538 million (2012: £509 million).

By category the performance was led by car parking, car rental and airside specialist shops whilst by airport the Group's performance was driven by Heathrow.

Financial review *continued*

Retail income *continued*
Analysis of retail income

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %
Car parking	**110**	100	10.0
Duty and tax-free	**137**	133	3.0
Airside specialist shops	**98**	94	4.3
Bureaux de change	**47**	46	2.2
Catering	**45**	44	2.3
Other retail income	**101**	92	9.8
Gross retail income	**538**	509	5.7
Retail expenditure	**(27)**	(27)	-
Net retail income	**511**	482	6.0

Heathrow
In the year ended 31 December 2013, Heathrow's retail income increased 5.9% to £487 million (2012: £460 million). Net retail income ('NRI') grew 6.2% to £461 million (2012: £434 million) and NRI per passenger rose 2.6% to £6.37 (2012: £6.21).

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 airports
Across the other airports, gross retail income increased 6.4% to £50 million (2012: £47 million) whilst net retail income per passenger increased 2.6% to £3.95 (2012: £3.85). Strength in retail income reflected significant growth at Glasgow and Aberdeen airports, partially offset by weakness at Southampton airport. Glasgow airport saw significant increase in car park income, car rental income and catering. Aberdeen airport had a strong performance in car park income, car rental income and advertising. Southampton's performance reflected continued weakness in car parking, its most significant retail activity, due to continued competitive pressure.

Other income
Income from activities other than aeronautical and retail increased 3.1% to £495 million (2012: £480 million). This was driven by rail income increasing 6.9% to £124 million (2012: £116 million) mainly due to an increase in passenger numbers.

Financial review *continued*

Adjusted operating costs

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

In the year ended 31 December 2013, adjusted operating costs increased 2.6% to £1,165 million (2012: £1,136 million).

The table below analyses operating costs into categories representing their underlying nature to enable more meaningful comparison year on year.

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m	Change %
Employment costs	**447**	430	4.0
Maintenance expenditure	**177**	170	4.1
Utility costs	**92**	96	(4.2)
Rents and rates	**126**	131	(3.8)
General expenses	**296**	283	4.6
Retail expenditure	**27**	27	-
Disposal of fixed assets	**-**	(1)	n/a
Total adjusted operating costs	**1,165**	1,136	2.6

[1] The income statement for the year ended 31 December 2012 has been restated following the adoption of IAS 19R, which affected the measurement and presentation of pension-related gains and losses. Refer to the accounting policies for further details.

The main drivers of change in adjusted operating costs were higher employment costs, maintenance expenses and general expenses. On a comparable basis between 2013 and 2012, stripping out the one-off Olympic Games costs, underlying operating costs increased by approximately 7%.

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 Group achieved efficiencies in 2013 through management pay freezes and headcount savings, these partially offset contractually agreed pay increases and bonuses.

During the year Heathrow consolidated its baggage system maintenance contracts to a single supplier. The increase of £7 million 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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %
Heathrow	**1,421**	1,155	23.0
Other airports	**65**	59	10.2
Other operations	**1**	12	(91.7)
Total	**1,487**	1,226	21.3

In the year ended 31 December 2013, Adjusted EBITDA increased 21.3% to £1,487 million (2012: £1,226 million), resulting in an Adjusted EBITDA margin of 56% (2012: 52%). The increase in Adjusted EBITDA from 2012 principally reflects the increase in aeronautical income discussed above.

In the year ended 31 December 2013, restructure charges incurred in delivering the operating efficiency programme and costs associated with Terminal 2 preparation are classified as exceptional items.

The restructure charges and Terminal 2 operational readiness costs will continue to be treated as exceptional items in 2014. The forecasts for Adjusted EBITDA that were published in December 2013 included these costs in operating expenses. Therefore this treatment drives a higher Adjusted EBITDA in 2013 and 2014 than previously published whilst the impact is cash flow neutral.

Financial review *continued*

Exceptional items

There was a total net £46 million pre-tax charge (2012: £5 million) to the income statement in respect of exceptional items with £46 million (2012: £nil) included in operating profit and £nil (2012: £5 million) below operating profit.

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.

Following the Supreme Court's refusal to allow the Group to appeal a decision of the Court of Appeal, the Group can no longer contest HMRC's refusal to refund £8 million relating to VAT it incurred on costs associated with the acquisition of BAA plc in 2006. The balance maintained during the course of the appeal process was therefore charged to the income statement.

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.

Fair value gain on investment properties

Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors (2012: CBRE Limited, Chartered Surveyors and Strutt & Parker, Chartered Surveyors). In 2012 Strutt & Parker were responsible solely for the valuations of residential property and agricultural land at Stansted airport. Investment properties comprise mainly airport car parks and airside assets and are considered less vulnerable to market volatility. The investment property valuation as at 31 December 2013 resulted in a gain of £77 million (2012: £49 million).

Fair value movements on financial instruments

A net fair value loss of £69 million (2012: £67 million gain) on financial instruments has been recognised in financing costs in the income statement. The non-cash, fair value loss is principally due to changes in the mark-to-market value of index-linked swaps. The mark-to-market value of index-linked swaps had been positively impacted during 2012 by the expectation that the Office for National Statistics (ONS) would alter the calculation methodology for the Retail Price Index. The announcement by the ONS in early 2013 not to alter the methodology led to a reversion in 2013 to higher RPI expectations. The fair value loss on index-linked swaps in 2013 was partially offset by positive mark-to-market movements on interest-rate swaps arising from recent higher interest rate expectations and a greater amount of these swaps no longer being hedge accounted. Fair value movements in 2012 were also affected by the release of hedge reserves on termination of interest rate swaps held at Airport Holdings NDH1 Limited as a consequence of the sale of Edinburgh airport.

Net finance costs
Net finance costs are discussed below together with net interest paid under 'Net finance costs and net interest paid'.

Taxation
The tax credit recognised for the year was £133 million (2012: £101 million). Based on a profit before tax for the year of £324 million (2012: £105 million loss), this results in a negative effective tax credit rate of 41.0% (2012: 96.2% effective tax rate).

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. As a result, the Group's deferred tax balances, which were previously provided at 23%, have been re-measured at a rate of 20% in the year ended 31 December 2013. This has resulted in a reduction in the net deferred tax liability of £146 million, with £179 million credited to the income statement and £33 million charged to reserves.

Excluding the impact of the change in tax rate, the tax charge recognised for the year on ordinary activities of £46 million (2012: £18 million restated) results in an effective tax rate of 14.2% (2012: 17.1%). The tax charge is less than implied by the statutory rate of 23.25% (2012: 24.5%) primarily due non-taxable income.

Discontinued operations
Discontinued operations included the results of Stansted airport in 2012 and 2013 and Edinburgh airport in 2012. Profits in 2013 were £252 million, which included a gain of £147 million on the disposal of Stansted airport on 28 February 2013. The £103 million profit in 2012 included a gain of £38 million on the disposal of Edinburgh airport in May 2012.

Dividends
During 2013, the Company made quarterly dividend payments to its ultimate shareholders totalling £255 million (2012: £240 million). A further £300 million return was made to the Company's ultimate shareholders on their historic investment in Stansted airport following its disposal. The remaining £141 million of the total £696 million (2012: £357 million) in dividends paid in 2013 related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries.

Pensions
At 31 December 2013, the LHR Airports Limited defined benefit pension scheme had a deficit of £93 million (2012: £103 million) as measured under IAS 19 Employee Benefits (Revised). The decrease in the deficit is mainly due to cash contributions and the commutation payment related to the sale of Stansted airport, offset by an increase in the assumed inflation rate applied to future scheme liabilities. The Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities had a deficit of £28 million at 31 December 2013 (2012: £30 million).

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

Financial review *continued*

Summary cash flow

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Cash generated from continuing operations	**1,430**	1,144
Taxation	**(2)**	(6)
Cash generated from discontinued operations[1]	**9**	98
Net cash flow from operating activities	**1,437**	1,236
Capital expenditure	**(1,290)**	(1,159)
Disposal proceeds and investing activities of discontinued operations[2]	**1,406**	738
Dividends paid	**(696)**	(357)
Net interest paid	**(532)**	(442)
Settlement of accretion on index-linked swaps	**(177)**	(80)
Movement in bonds	**349**	2,677
Net movement in other borrowings and other financing items	**(473)**	(2,428)
Cancellation and restructuring of derivatives	**(33)**	(153)
Financing activities of discontinued operations	**-**	(21)
Net (decrease)/increase in cash and cash equivalents	**(9)**	11

[1] Includes the results of Stansted and Edinburgh airports as a result of their classification as discontinued operations.
[2] Includes £1,414 million net proceeds from the sale of Stansted airport (2012: £762 million net proceeds from the sale of Edinburgh airport).

Cash flow from continuing operations

Cash inflow from continuing operations in the year ended 31 December 2013 increased 25.0% to £1,430 million (2012: £1,144 million) which compares with Adjusted EBITDA of £1,487 million (2012: £1,226 million).

The increased conversion of Adjusted EBITDA to operating cash flow compared to 2012 reflects a stronger underlying working capital performance than in 2012.

Capital expenditure

In the year ended 31 December 2013, the cash flow impact of capital investment was £1,290 million (2012: £1,159 million) of which £1,283 million related to Heathrow (2012: £1,141 million).

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

Disposal proceeds

The Group completed the disposals of Stansted airport in February 2013 and Edinburgh airport in May 2012. Net proceeds, after allowing for transaction and separation costs, and cash held by the airport on the date of disposal, was £1,414 million (2012: £762 million).

Net debt and liquidity

The analysis below focuses on the Group's external debt and excludes restricted cash. It includes all the components used in calculating gearing ratios under the Group's major financing agreements including index-linked accretion.

During 2013, the Group's nominal net debt decreased 0.5% to £12,339 million at 31 December 2013 from £12,397 million at 31 December 2012. The marginally lower net debt reflects debt repayment from the proceeds of the sale of Stansted airport together with ongoing operating cash flow more than offsetting the very substantial capital investment at Heathrow during 2013, interest payments, accretion on the Group's index-linked swaps and bonds, dividend/loan repayments to enable dividends to the Group's ultimate shareholders and funds used, together with new loan facilities at ADI Finance 2 Limited, to refinance the loan facility previously held at ADI Finance 1 Limited.

The Group's nominal net debt at 31 December 2013 comprised £11,243 million under bond issues, £789 million under various loan facilities, £448 million in index-linked derivative accretion and cash at bank and term deposits of £141 million (compared to cash and cash equivalents of £143 million shown on the statement of financial position). Nominal net debt comprised £12,025 million at the Heathrow Finance plc group level (i.e. related to Heathrow), £327 million at the Airport Holdings NDH1 Limited group level (i.e. principally related to the Group's other airports) and £13 million of net cash elsewhere in the Group.

The accounting value (which includes the statement of financial position cash and cash equivalents) of the Group's net debt excluding accrued interest was £12,098 million at 31 December 2013 (2012: £12,240 million).

Financial review *continued*

Net debt and liquidity *continued*
The average cost of the Group's external gross debt at 31 December 2013 was 4.71% (2012: 4.44%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2013 was 6.05% (2012: 5.88%). The change in the average cost of debt is mainly due to an increase in the Group's proportion of fixed rate debt through the use of interest rate swaps.

At 31 December 2013, the Group had approximately £2.3 billion in undrawn bank facilities and cash resources. Since the beginning of 2014, the Group has completed further debt financings and repaid or partially cancelled existing debt facilities. Taking this into account, together with expected operating cashflow over the period, the Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, until the end of 2015.

Recent financing activities
The recent focus of the Group's financing activities has been to take advantage of attractive financing market conditions during 2013 to refinance existing debt, optimise the Group's long-term cost of debt and extend its debt maturity profile. This activity has further strengthened the long term financing platform established in recent years.

The Group completed nearly £1.0 billion of new debt financings in the year including in particular a £750 million 33 year Class A bond issue by Heathrow Funding Limited which had the lowest coupon of any long dated sterling bond issue ever completed by the Group at 4.625%.

Further, Heathrow completed £275 million of Class A and Class B revolving credit facilities (including £100 million of Class B facilities completed since the end of 2013) at lower cost than the equivalent tranches under its core revolving credit facilities. Also since the end of 2013, Heathrow Funding Limited placed £200 million in Class A index-linked bonds with 18, 25 and 35 year maturities with a single investor.

The Group has actively taken steps to repay relatively expensive debt as it has put in place more attractively priced new financing. It has taken advantage of the £275 million in new revolving credit facilities referred to above to reduce its more expensive core revolving credit facilities by £200 million since the beginning of 2014. In addition, Heathrow's previous Class B term loan facility due September 2014, which amounted to £150 million at the end of 2012, was repaid in full during 2013. Finally, at the Group's non-Heathrow airports, over £45 million of the term loan was repaid during 2013 and the size of the capital expenditure facility was further reduced to £102 million.

This financing activity has enabled the Group to increase the average life of its external debt from 9.7 years at 31 December 2012 to 10.7 years at 31 December 2013 with the amount of debt falling due within 3 years being £2.5 billion (including over £300 million related to the Group's non-Heathrow airports) compared to £2.2 billion at the end of 2012.

As highlighted last year, the Group expects the scale of its funding requirements to remain relatively modest, at an average of less than £1.5 billion per annum, over the coming years. This reflects a reduced capital programme and continued increases in operating cash flow at Heathrow through its next regulatory period ending in 2018.

Regulatory Asset Base ('RAB')
Heathrow's RAB at 31 December 2013 was £14,585 million compared to £13,471 million at 31 December 2012. Stansted's RAB at 31 December 2012, which was used in determining gearing at that date, was £1,343 million. RAB figures are utilised in calculating gearing ratios under the Group's major financing agreements.

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.

Net finance costs and net interest paid
In the year ended 31 December 2013, the Group's net finance costs before certain re-measurements were £634 million (2012: £714 million), which included £1,011 million (2012: £1,061 million) of interest on external bond and bank debt and related derivatives and £21 million (2012: £22 million) of financing facility fees and other items. These charges were partially offset by £233 million (2012: £268 million) in finance income and £164 million (2012: £101 million) in capitalised interest.

Financial review *continued*

Net finance costs and net interest paid *continued*

Underlying net finance costs were £797 million (2012: £769 million), after adjusting for £164 million (2012: £101 million) in capitalised interest and £1 million (2012: £46 million) in non-cash amortisation of financing fees and bond fair value adjustments. The increase in underlying net finance costs primarily reflected a higher average cost of debt in 2013.

Net interest paid in the year ended 31 December 2013 was £532 million (2012: £442 million). This consisted of £509 million (2012: £401 million) net interest paid on debt at the Heathrow Finance group level, £26 million (2012: £53 million) net interest paid on debt at the Airport Holdings NDH1 Limited group level and £3 million (2012: £12 million) net interest received elsewhere in the Group. The higher interest paid at Heathrow Finance group is due primarily to the overall increase in cost of debt. The lower net interest paid at Airport Holdings NDH1 Limited group is primarily due to the reduction in debt during the period.

Net interest paid is lower than net finance costs primarily due to a £202 million (2012: £191 million) non-cash charge relating to accretion on index-linked instruments and an amortisation charge of £nil million (2012: £38 million) in net finance costs relating to prepayments of derivative interest made in earlier periods. This is partially offset by the net effect of capitalised interest and the non-cash amortisation of financing fees and bond fair value adjustments.

Financial ratios

The Heathrow Finance Group and NDH1 Group continue to operate comfortably within required financial ratios.

At 31 December 2013, the SP Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 67.6% and 77.2% respectively (2012: 66.2% and 76.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 82.4% (2012: 81.6%) compared to a covenant level of 90.0% under its financing agreements.

The disposal of Stansted and subsequent use of disposal proceeds resulted in a modest reduction in gearing. The net increase in the Group's gearing since 31 December 2012 is therefore primarily due to the effect of the restricted payments linked to partial repayment of the previous loan facility at ADI Finance 1 Limited.

In the year ended 31 December 2013, the SP Group's senior and junior interest cover ratios (the ratio of cash flow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 3.08x and 2.43x respectively (2012: 2.62x and 2.30x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's ICR was 2.22x (2012: 2.08x) compared to a covenant level of 1.00x under its financing agreements.

The Heathrow Finance Group and NDH1 Group continue to operate comfortably within required financial ratios. The NDH1 group leverage ratio (Net debt to EBITDA) is significantly reduced to 4.93 compared with 5.86 as at 31 December 2012 due to the good performance of the business resulting in strong operating cashflow. The debt service cover ratio for the group for 2013 is 1.77x compared with 1.44x in 2012 compared to a covenant level of 1.10x under its financing agreements. In 2012 and 2013 there were exceptional cash costs of £4 million and £16 million respectively.

Accounting and reporting policies and procedures

This annual report complies with the European regulation to report consolidated financial statements in conformity with IFRS. The consolidated results in the financial statements for the year ended 31 December 2013 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the year ended 31 December 2012. The Group's accounting policies and areas of significant accounting judgements and estimates are detailed within the Group financial statements. The Company accounts are stated under UK GAAP.

Internal controls and risk management

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

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

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

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

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 the Company's executive directors; and
- reviews the scope, operations and reports of the Group's Internal Audit function on the effectiveness of systems for internal financial control, financial reporting and risk management.

Risk management
The Group's risk management process is used to facilitate the identification, evaluation and effective management of the threats to the achievement of the 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.

Internal controls and risk management *continued*

Risk management *continued*
The principal corporate and reputational risks as identified by the Executive Committee are:

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

The Group's Safety Management System includes risk assessment processes for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the Group's business. The Group also operates robust asset management processes to ensure property and equipment remain safe. Governance, led by the airports' 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 Group. The Group mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Group works closely with government agencies, including the police and the UK Border Force building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

Regulatory environment, legal and other reputational risks
Civil Aviation Authority ('CAA') economic regulation
As noted previously, the Group's operations at Heathrow airport are currently subject to economic regulatory review by the CAA normally every five years. The risk of an adverse outcome from these reviews is mitigated as far as possible by a dedicated project team which ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters.

Part of the regulatory framework is the Group's engagement with its airline customers. In order to manage the risk of adverse airline relations, all airlines are invited to be represented on engagement fora – eg joint steering groups. When feedback is sought or processes are measured, robust processes are 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 Group, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of the Group breaching these regulations.

Capacity shortfall
Failure to secure necessary planning permissions could lead to the Group having insufficient capacity to meet the demands of the industry resulting in increased congestion. The UK government's policy on airport capacity changes has a significant influence on the Group's ability to secure necessary planning permissions and develop capacity. The Group mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in government consultations and other advisory groups. In addition, investment in additional capacity at Heathrow 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 Group as it has the potential to impact negatively upon the Group's reputation and jeopardise its licence to operate and to grow. The Group controls and mitigates these risks at a number of levels. Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established. The Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Operational disruption
There are a number of circumstances that can pose short-term risks to normal airport operations 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 affected 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 Group 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*

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

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 a shortfall in revenue and misaligned operational capacity within the Group. Since it is not possible to identify the timing or period of such an effect, the Group carries out evaluations through a series of scenario planning exercises.

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 Group is recognised. The Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The Heathrow pay agreement reached in early 2011 established the pay structure for 2011, 2012 and 2013 - the next round of pay negotiations have commenced and present a significant challenge given the outcome of Heathrow's most recent economic regulatory review. The Group 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 Border Force.

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

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

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

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

Internal controls and risk management *continued*

Risk management *continued*
Commercial and financial risks continued
Treasury continued

(b) Inflation

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

(c) Foreign currency

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

(d) Funding and liquidity

The Group operates separate financing programmes for Heathrow and its other airports (Glasgow, Aberdeen and Southampton).

1. Heathrow

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

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

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

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

2. Other airports

Glasgow, Aberdeen and Southampton airports are financed through term loan and revolving credit facilities totalling £341 million. These airports have positive cash flows after capital expenditure. As at 31 December 2013, cash and cash equivalents were £34 million (excluding £7 million in restricted cash). Undrawn headroom under working capital facilities was £10 million.

3. ADI Finance 2 Limited

Financing at ADI Finance 2 Limited is through £505 million in loan facilities.

(e) Counterparty credit

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

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

On behalf of the Board

Colin Matthews
Director

20 February 2014

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2013.

Principal activities
The principal activity of the Group is the provision and management of airport facilities in the UK. The Group is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are reported in the Strategic report on pages 2 to 19.

Results and dividends
The profit after taxation for the financial year was £709 million (2012: £309 million). During 2013, the Company made quarterly dividend payments to its ultimate shareholders totalling £255 million (2012: £240 million). A further £300 million return was made to the Company's ultimate shareholders on their historic investment in Stansted airport following its disposal. The remaining £141 million of the total £696 million (2012: £357 million) in dividends paid in 2013 related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries. The statutory results for the year are set out on page 25.

Directors
The directors who served during the year and since the year end were as follows:

Akbar Abbas Al Baker	Appointed 14 January 2013
Stuart Baldwin	
Christopher Beale	
David Begg	
Ali Bouzarif	Appointed 14 January 2013
Renaud Faucher	
Jorge Gil	
Bing Hu	Resigned 21 March 2013
Jose Leo	
Rachel Lomax	
Ernesto Lopez	
Colin Matthews	
Santiago Olivares	
Sir Anthony Nigel Rudd (Chairman)	
Qing Zhang	Appointed 21 March 2013

Richard Agutter	Alternate Director	Appointed 4 February 2013
Chin Hau Boon	Alternate Director	Appointed 11 January 2013
Juan Carlos Bullón	Alternate Director	Appointed 5 March 2013
Samuel Coxe	Alternate Director	
Charles Dupont	Alternate Director	Resigned 21 March 2013
Ignacio Aitor García	Alternate Director	Appointed 5 March 2013
Eric Lachance	Alternate Director	Appointed 30 January 2014
Iñigo Meirás	Alternate Director	
Simon Rigall	Alternate Director	Resigned 21 November 2013
Dapeng Xu	Alternate Director	

Company Secretary
The company secretary who served during the year and since the year end was Carol Hui.

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

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

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

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

Directors' report *continued*

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

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

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

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

The Group had 16 days purchases outstanding at 31 December 2013 (2012: 9 days) based on the average daily amount invoiced by suppliers during the year.

Donations
The Group's charitable donations for the year amounted to £2 million (2012: £2 million). The main beneficiaries of charitable donations, the relevant amounts donated and the main activities of these beneficiaries are as follows.

Hillingdon Communities Trust	£1,000,000	Heathrow Airport Limited made a 15 year commitment ending 2017 to make an annual grant of £1 million to the Hillingdon Communities Trust. The deed of gift to the Trust carries a requirement that grants must benefit the community in the southern part of the Borough of Hillingdon including Hayes (the wards of Botwell, Townfield and Pinkwell, West Drayton, Yiewsley and the Heathrow Villages).
Communities Trust	£750,000	Provides support for local community projects close to the Group's 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 environmental 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 Group actively manages all identified corporate risks through Heathrow Airport Holdings Limited's corporate operations and has in place a system of internal controls designed to mitigate these risks. Details of these policies have been disclosed in the Internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies
The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk has been disclosed in the Internal controls and risk management section of the Strategic report and in Note 18 of the Group financial statements.

Directors' report *continued*

Subsequent 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 and this will take effect from 1 April 2014, when the previous regulatory settlement will end. Heathrow and other parties with a qualifying interest have until 27 March 2014 to seek permission to appeal the decision on the price controls.

A dividend of £67 million was declared on 20 February 2014.

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.

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

Jose Leo
Director

20 February 2014

Company registration number: 05757208

Heathrow Airport Holdings Limited

Directors' responsibilities statement

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

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

In preparing the Group financial statements, International Accounting Standard ('IAS') 1 requires that directors:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

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

Jose Leo
Director

20 February 2014

Heathrow Airport Holdings Limited

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

We have audited the Group financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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

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

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

Opinion on financial statements
In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic and Directors' reports for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the parent company financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013.

A J Kelly

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

20 February 2014

Heathrow Airport Holdings Limited

Consolidated income statement

	Note	Year ended 31 December 2013 Before certain re-measurements £m	Certain re-measurements[3] £m	Total £m	Restated[1,2] Year ended 31 December 2012 Before certain re-measurements £m	Certain re-measurements[3] £m	Total £m
Continuing operations							
Revenue	*1*	**2,652**	**-**	**2,652**	2,362	-	2,362
Operating costs	*2*	**(1,702)**	**-**	**(1,702)**	(1,654)	-	(1,654)
Other operating items							
Fair value gain on investment properties	*9*	**-**	**77**	**77**	-	49	49
Operating profit	*1*	**950**	**77**	**1,027**	708	49	757
Analysed as:							
Operating profit before exceptional items		**996**	**77**	**1,073**	708	49	757
Exceptional items	*3*	**(46)**	**-**	**(46)**	-	-	-
Exceptional impairment	*3*	**-**	**-**	**-**	(5)	-	(5)
Financing							
Finance income	*4a*	**233**	**-**	**233**	268	-	268
Finance costs	*4a*	**(867)**	**-**	**(867)**	(982)	-	(982)
Fair value (loss)/gain on financial instruments	*4b*	**-**	**(69)**	**(69)**	-	67	67
		(634)	**(69)**	**(703)**	(714)	67	(647)
Profit/(loss) before tax		**316**	**8**	**324**	(11)	116	105
Taxation before change in tax rate		**(28)**	**(18)**	**(46)**	(25)	7	(18)
Change in tax rate		**158**	**21**	**179**	106	13	119
Taxation	*5*	**130**	**3**	**133**	81	20	101
Profit for the year from continuing operations[4]		**446**	**11**	**457**	70	136	206
Profit/(loss) from discontinued operations[4,5]	*6*	**252**	**-**	**252**	119	(16)	103
Consolidated profit for the year[4]		**698**	**11**	**709**	189	120	309

1 The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

2 The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. Refer to the Accounting policies for further details.

3 Certain re-measurements consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and the associated tax impact of these and similar cumulative prior year items.

4 Attributable to equity holders of the parent.

5 Includes primarily the results of Stansted and Edinburgh airports, and adjustments relating to previous disposals as a result of their classification as discontinued operations.

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Profit for the year		**709**	309
Other comprehensive income:			
Available-for-sale investments[2]			
Loss taken to equity	*27*	**(1)**	-
Cash flow hedges[2]			
Profit/(loss) taken to equity	*27*	**182**	(302)
Transferred to income statement	*27*	**6**	307
Actuarial loss on pensions[3]	*27*	**(58)**	(153)
Change in tax rate[3]	*27*	**(33)**	(16)
Tax relating to indexation of operating land[3]	*27*	**(1)**	-
Other comprehensive income/(loss) for the year net of tax		**95**	(164)
Total comprehensive income for the year[4]		**804**	145

1 The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.
2 Elements that may be recycled to the consolidated income statement in future periods were £187 million gain (2012: £5 million).
3 Elements that may not be recycled to the consolidated income statement in future periods were £92 million loss (2012: £169 million).
4 Attributable to equity holders of the parent.

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27.

Heathrow Airport Holdings Limited

Consolidated statement of financial position

	Note	31 December 2013 £m	Restated[1] 31 December 2012 £m	Restated[1] 1 January 2012 £m
Assets				
Non-current assets				
Property, plant and equipment	*8*	**11,958**	10,996	11,035
Investment properties	*9*	**2,187**	2,068	2,535
Intangible assets	*10*	**3,084**	3,062	3,301
Available-for-sale investments	*11*	**26**	27	27
Retirement benefit surplus	*20*	**-**	-	39
Derivative financial instruments	*17*	**173**	322	381
Trade and other receivables	*13*	**132**	120	105
		17,560	16,595	17,423
Current assets				
Inventories	*12*	**10**	8	9
Trade and other receivables	*13*	**288**	290	302
Derivative financial instruments	*17*	**135**	-	171
Restricted cash	*14*	**16**	34	29
Cash and cash equivalents	*15*	**143**	132	128
		592	464	639
Assets classified as held-for-sale	*24*	**-**	1,593	901
Total assets		**18,152**	18,652	18,963
Liabilities				
Non-current liabilities				
Borrowings	*16*	**(11,795)**	(12,123)	(11,626)
Derivative financial instruments	*17*	**(1,177)**	(1,158)	(1,298)
Deferred income tax liabilities	*19*	**(1,084)**	(1,152)	(1,509)
Retirement benefit obligations	*20*	**(121)**	(133)	(29)
Provisions	*22*	**(13)**	(5)	(6)
Trade and other payables	*23*	**(6)**	(7)	(1)
		(14,196)	(14,578)	(14,469)
Current liabilities				
Borrowings	*16*	**(878)**	(721)	(1,080)
Derivative financial instruments	*17*	**(2)**	(91)	-
Provisions	*22*	**(34)**	(9)	(16)
Current income tax liabilities		**(27)**	(126)	(137)
Trade and other payables	*23*	**(588)**	(555)	(549)
		(1,529)	(1,502)	(1,782)
Liabilities associated with assets classified as held-for-sale	*24*	**-**	(253)	(181)
Total liabilities		**(15,725)**	(16,333)	(16,432)
Net assets		**2,427**	2,319	2,531
Equity				
Capital and reserves				
Share capital	*25*	**2,666**	2,666	2,666
Fair value and other reserves	*26*	**(311)**	(478)	(470)
Retained earnings	*28*	**72**	131	335
Total shareholders' equity		**2,427**	2,319	2,531

[1] The adoption of amendments to IAS 12 has affected the measurement of deferred tax on investment properties. Refer to the Accounting policies for further details.

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 20 February 2014. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

Heathrow Airport Holdings Limited

Consolidated statement of changes in equity

		Attributable to owners of the Company (restated[1])			
	Note	**Share capital £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**
1 January 2012 as previously reported		2,666	(470)	284	2,480
Effect of change in accounting policy for IAS 12A		-	-	51	51
1 January 2012 (restated)		2,666	(470)	335	2,531
Comprehensive income:					
Profit for the year		-	-	309	309
Other comprehensive income:					
Profit on re-measurement of the following:					
Available-for-sale investments	*27*	-	-	-	-
Cash flow hedges net of tax	*27*	-	*5*	-	5
Actuarial loss on pensions net of tax	*27*	-	-	(153)	(153)
Change in tax rate	*27*	-	(13)	(3)	(16)
Tax relating to indexation of operating land	*27*	-	-	-	-
Total comprehensive income		-	(8)	153	145
Transactions with owners:					
Dividends paid	*7,28*	-	-	(357)	(357)
Total transactions with owners		-	-	(357)	(357)
1 January 2013 (restated)		**2,666**	**(478)**	**131**	**2,319**
Comprehensive income:					
Profit for the year		**-**	**-**	**709**	**709**
Other comprehensive income:					
(Loss)/profit on re-measurement of the following:					
Available-for-sale investments	*27*	**-**	**(1)**	**-**	**(1)**
Cash flow hedges net of tax	*27*	**-**	**188**	**-**	**188**
Actuarial loss on pensions net of tax	*27*	**-**	**-**	**(58)**	**(58)**
Change in tax rate	*27*	**-**	**(20)**	**(13)**	**(33)**
Tax relating to indexation of operating land	*27*	**-**	**-**	**(1)**	**(1)**
Total comprehensive income		**-**	**167**	**637**	**804**
Transactions with owners:					
Dividends paid	*7,28*	**-**	**-**	**(696)**	**(696)**
Total transactions with owners		**-**	**-**	**(696)**	**(696)**
31 December 2013		**2,666**	**(311)**	**72**	**2,427**

[1] The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

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Heathrow Airport Holdings Limited

Consolidated statement of cash flows

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Cash flows from operating activities			
Cash generated from continuing operations	*30*	**1,430**	1,144
Group relief paid		**(2)**	(6)
Cash generated from discontinued operations		**9**	98
Net cash from operating activities		**1,437**	1,236
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(1,217)**	(1,114)
Investment properties		**(31)**	(9)
Intangible assets		**(46)**	(37)
Proceeds on disposal of:			
Property, plant and equipment		**4**	1
Disposal proceeds and investing activities of discontinued operations		**1,406**	738
Net cash from/(used in) investing activities		**116**	(421)
Cash flow from financing activities			
Dividends paid		**(696)**	(357)
Proceeds from issuance of bonds		**745**	3,357
Repayment of bonds		**(396)**	(680)
(Repayment)/drawdown of revolving credit facilities		**(227)**	307
Drawdown/(repayment) of capital expenditure facilities		**5**	(1,377)
Drawdown/(repayment) of subordinated facilities		**35**	(98)
Repayment of other facilities and other items		**(266)**	(1,230)
Decrease in amount owed to parent		**(20)**	(30)
Cancellation and restructuring of derivatives		**(33)**	(153)
Settlement of accretion on index-linked swaps		**(177)**	(80)
Interest paid		**(537)**	(445)
Interest received		**5**	3
Financing activities of discontinued operations		**-**	(21)
Net cash used in financing activities		**(1,562)**	(804)
Net (decrease)/increase in cash and cash equivalents		**(9)**	11
Cash and cash equivalents at beginning of year		**168**	157
Cash and cash equivalents at end of year	*15*	**159**	168
Represented by:			
Cash and cash equivalents – continuing operations		**159**	166
Cash and cash equivalents – discontinued operations		**-**	26
Overdrafts – continuing operations		**-**	(24)
Cash and cash equivalents at end of year	*15*	**159**	168

Accounting policies

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

Basis of accounting
The Group financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU') and prepared under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

Primary financial statements format
The primary financial statements are presented in accordance with 'IFRS' and International Accounting Standard ('IAS') 1 'Presentation of Financial Statements'.

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

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

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

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

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (refer to Recent financing activities in the Finance review and Note 18).

Whilst the Group is in a net current liability position, 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 Group's funding requirement for the twelve months following the date the consolidated statement of financial position was signed.

Changes in accounting policy and disclosures
(a) Amended standard adopted by the Group

The Group has adopted the amended IFRSs as of 1 January 2013 that did not have a material impact on the Group's financial statements.

The Amendments to IAS 19 Employee Benefits ('IAS 19R') has impacted the presentation of pensions related gains and losses in the income statement and statement of other comprehensive income. For the restated year ended 31 December 2012, the lower expected return on assets reduced the level of pension income that was recognised in profit and loss leading to a higher net expense of £16 million before tax. The amounts recognised in other comprehensive income reduced by £16 million. There was no change in the statement of financial position or cash flow as a result of implementing IAS 19R.

The adoption of Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets ('IAS 12A') impacted the measurement of deferred tax on investment properties. For the restated net assets at 31 December 2012, this reduced deferred income tax liabilities by £54 million (1 January 2012: £51 million), with £3 million credited to the income statement for the year ended 31 December 2012.

The application of IFRS 13 Fair Value Measurement resulted in an additional £5 million charge recognised in profit and loss before tax.

The directors do not expect that the adoption of the other standards will have a material impact on the financial statements of the Group in future periods.

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

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

- IFRS 9 Financial Instruments;
- IFRS 7 (amended) Disclosures - Offsetting Financial Assets and Financial Liabilities;
- IFRS 14 Regulatory Deferral Accounts;

Accounting policies *continued*

Changes in accounting policy and disclosures *continued*
(b) Standards, amendment and interpretations to existing standards that are not yet effective and have not been adopted early by the Group continued

- IAS 19 Defined Benefit Plans: Employee Contributions (amendments); and
- Improvements to IFRS 2010-2012 and 2011-2013.

The adoption of IFRS 9 Financial Instruments may widen the ability to hedge accounting within the group financial statements, although it has been noted that endorsement of IFRS 9 for use within the EU has been postponed. The Group does not fall within the scope of IFRS 14 Regulatory Deferral Accounts as it is neither a first time adopter of IFRS nor allowed to account for regulatory deferral account balances under our previous GAAP.

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

Business combinations
Basis of consolidation
The Group financial statements consolidate the financial statements of Heathrow Airport Holdings Limited and all its subsidiaries together with any share of profits (net of interest and tax) and net assets of joint ventures undertakings accounted for using the equity method.

Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Transactions with non-controlling interests
Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's share of equity. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Accounting policies *continued*

Segment reporting
For the purposes of Group reporting, the reportable segments are consistent with those operating segments reported upon on a monthly basis to the chief operating decision-maker. The chief operating decision-maker is considered to have responsibility for allocating resources and assessing performance of the operating segments and has been identified as the Board.

The Group's operating segments are organised according to their regulatory environment, type of operation, and geographic location. The operating segments are primarily the individual airports and Heathrow Express ('HEX') which are organised and managed separately on the basis of the above operating environment. As such, the following operating segments are reported to the Board on a monthly basis:
- Heathrow and HEX rail operations;
- Glasgow, Aberdeen and Southampton airports;
- other operations (corporate activities, BAA Lynton Limited and other commercial operations); and
- discontinued operations (Stansted airport in 2013, and Stansted and Edinburgh airports in 2012).

Revenue
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

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

Retail
- Concession fees from retail and commercial concessionaires at 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 period is provided.
- Other invoiced sales, recognised on the performance of the service.

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

Grants and contributions
On occasion, the Group may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public.

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

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

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

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

Accounting policies *continued*

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

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

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

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

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

Discontinued operations
Discontinued operations consist of business segments and other non-core assets that have either been sold during the year or are classified as held-for-sale at year end.

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

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. Projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Group. The Group reviews these projects on a regular basis, 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.

Accounting policies *continued*

Property, plant and equipment *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	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Computer software	3–7 years
Other land and buildings	
Short leasehold properties	Period of lease
Leasehold improvements	Lower of useful economic life or lease period

The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

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

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

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

Accounting policies *continued*

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

Goodwill and Right to Operate
Goodwill
Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Identifiable assets, liabilities and contingent liabilities are grouped in cash generating units being individual airports and other operations which are organised and managed separately. Goodwill arising on acquisition of subsidiaries is capitalised as an intangible asset and carried at cost less accumulated impairment losses. Goodwill is not amortised but is subject to an impairment review at least annually or more frequently if there is an indication that the carrying value of goodwill may be impaired and indicators of potential impairment are ordinarily market based. Any impairment is recognised immediately in the income statement. An impairment loss recognised in respect of goodwill is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Right to operate
Right to operate relates to the Group's non-Heathrow airports' permission to levy charges indefinitely on airline carriers for the use of airport infrastructure. Right to operate is not amortised but is subject to an annual impairment test. Any impairment loss is charged immediately in the income statement. An impairment loss recognised in respect of this indefinite life intangible asset is only revised if, and 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.

Internally-generated intangible assets
Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:
- an intangible asset is created that can be separately identified; and
- it is probable that the intangible asset created will generate future economic benefits; and
- the development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years.

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

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

Other intangible assets
Intangible assets acquired separately or as a result of a business acquisition are capitalised at cost which is considered to equal their fair value at that date. Where amortisation is charged on these assets, the expense is taken to the income statement through operating costs.

Indefinite-lived assets
Assets with an indefinite useful life are considered to be those assets that are expected to indefinitely contribute to the generation of cash flows. Intangible assets with an indefinite useful life are not amortised but are subjected to an impairment test on at least an annual basis.

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

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

Accounting policies *continued*

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

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

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

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

Inventories
Inventories are stated at the lower of cost and net realisable value.

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

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

Deferred income
Contractual income is treated as deferred income and released to the income statement as earned.

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

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

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

Financial instruments
Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

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

Accounting policies *continued*

Financial instruments *continued*
Investments continued
Assets classified as 'loans and receivables' or 'held-to-maturity' are recognised in the statement of financial position at their amortised cost, using the effective interest rate method, less any provision for impairment.

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

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

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

Investments are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the sale and the sale is expected to be completed within one year of the date of classification. Assets classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

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

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

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

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

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

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

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

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

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

Accounting policies *continued*

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

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

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

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

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

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

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

Accounting for changes in credit risk
Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Group's derivatives is reflected in its derivative valuations. This credit factor is adjusted over time to reflect the reducing tenor of the instrument and is updated where the credit associated with the derivative has clearly changed based on market transactions and prices.

Embedded derivatives
As required by IAS 39 *Financial Instruments: Recognition and Measurement* embedded derivatives are assessed on the initial recognition of the underlying host contract. Where the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract no bifurcation of the embedded derivative from the host contract is undertaken.

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

The Group's primary defined benefit UK pension fund is a self-administered defined benefit scheme now closed to new employees. The defined benefit obligation or surplus is calculated quarterly by independent actuaries using the projected unit credit method. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the statement of financial position.

The amount of income or expenditure recognised in the income statement as employment costs, in relation to the defined benefit pension scheme, comprises the current service costs and past service costs. The net interest on the defined benefit asset or liability is recognised within financing costs.

Any difference between the interest credit on the assets and the return actually achieved is recognised in the statement of comprehensive income as a remeasurement gain or loss along with differences which arise from experience or assumption changes.

Accounting policies *continued*

Employee benefits *continued*

Pension obligations continued

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

Share based payments

The option plans are accounted for as cash-settled share-based payment transactions in accordance with the grant being made over Ferrovial S.A. shares and the Group has an obligation to settle the share-based payment transaction.

For cash-settled share-based payments, a liability is recognised for the services acquired, measured initially at the fair value of the liability. At each statement of financial position date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the income statement for the year.

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

Current and deferred income tax

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

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

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

Share capital

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

Dividend distribution

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

Foreign currency

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

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale investments, are recognised in equity within the fair value reserve.

Accounting policies *continued*

Foreign currency *continued*
The results of Group entities (none of which has a functional currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (Sterling) are translated into Sterling at the average exchange rate and the statements of financial position are translated at exchange rates at the reporting date. Exchange differences arising on retranslation are taken directly to a separate component of equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates at the reporting date.

Significant accounting judgements and estimates

In applying the Group'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 as at 31 December 2013 at fair value by CBRE Limited, Chartered Surveyors. The valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 83% (2012: 79%) of the investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility than the overall market. Independent valuations were obtained for 100% of the investment properties. Strutt & Parker, Chartered Surveyors were used in addition to CBRE Limited in 2012 and were responsible solely for the valuation of residential property and agricultural land at Stansted airport.

Estimated impairment of goodwill and indefinite life intangible assets
The Group annually tests whether goodwill has suffered any impairment, as stated in the Accounting policies. The recoverable amounts of cash-generating units have been determined based on fair value less cost to sell. These calculations require the use of assumptions, the details of which have been disclosed in Note 10, together with sensitivity analysis where appropriate.

Pensions
Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period end and charges to the income statement. The factors have been determined in consultation with the Group's actuary taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the statement of comprehensive income. Further details are available in Note 20.

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

Hedge accounting
Interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of forecast transactions or existing liabilities. Forecast transactions are based on management's expectation that it is highly probable that future Sterling funding issuances will be used to refinance existing debt. As at 31 December 2013, £456 million of fair value losses (2012: £642 million) on these derivatives have been deferred into the cash flow hedge reserve.

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

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

Classification of disposal group as held for sale
The Group exercises judgement to determine when groups of assets are actively marketed in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. Assets, or groups of assets, are considered to be actively marketed once there is a board approval and an expectation of the disposal has been raised in those directly affected by the disposal.

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 AICC.

Notes to the Group financial statements

1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the Board for allocating resources and assessing performance. These segments are organised according to their regulatory environment, type of operation, geographic location and funding arrangements and are largely split between the 'Heathrow' and 'Other airports' groups.

The 'other operations' segment consists of corporate activities, BAA Lynton Limited and other commercial operations.

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

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

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

Table (a) details total revenue from external customers for the year ended 31 December 2013 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2012.

Table (c) details depreciation and amortisation, fair value adjustments, and profit and loss on disposals by reportable segment. The fair value adjustment information is not provided to the Board by reportable segment, but is included in this note as additional information.

Table (d) details asset, liability and capital expenditure information by reportable segment. The assets and liabilities information by segment is not provided to the Board.

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

Notes to the Group financial statements *continued*

1 Segment information *continued*

Table (a) Year ended 31 December 2013

	Segment revenue					EBITDA		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional items £m	Operating exceptional items £m	Post exceptional items £m
Heathrow	1,523	487	269	66	**2,345**	1,348	(38)	1,310
Heathrow Express	-	-	-	124	**124**	73	-	73
	1,523	**487**	**269**	**190**	**2,469**	**1,421**	**(38)**	**1,383**
Other airports								
Glasgow	45	29	11	5	**90**	32	-	32
Aberdeen	35	13	8	6	**62**	25	-	25
Southampton	16	8	2	1	**27**	8	-	8
	96	**50**	**21**	**12**	**179**	**65**	**-**	**65**
Other operations	**-**	**1**	**-**	**3**	**4**	**1**	**(8)**	**(7)**
Total	**1,619**	**538**	**290**	**205**	**2,652**	**1,487**	**(46)**	**1,441**

Reconciliation to statutory information

Unallocated income and expenses	
Depreciation and amortisation (table (c))	**(491)**
Operating profit (before certain re-measurements)	**950**
Fair value gain on investment properties (certain re-measurements)	**77**
Exceptional impairment	**-**
Finance income	**233**
Finance costs	**(867)**
Fair value loss on financial instruments (certain re-measurements)	**(69)**
Profit before tax	**324**
Taxation before certain re-measurements	**130**
Taxation (certain re-measurements)	**3**
Taxation	**133**
Profit for the year – continuing operations	**457**
Profit from discontinued operations (Note 6)	**252**
Consolidated profit for the year	**709**

[1] Operating exceptional items for segmental reporting purposes excludes £38 million relating to restructure costs and Heathrow Terminal 2 operational readiness costs when compared to statutory reporting (Note 3).

Revenues of £747 million (2012: £711 million) were derived from a single external customer. These revenues are included in the Heathrow, Glasgow, Aberdeen and Southampton airport segments above.

1 Segment information *continued*

Table (b) Year ended 31 December 2012 (restated[1])

	Segment revenue					EBITDA		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional items £m	Operating exceptional items[1] £m	Post exceptional items £m
Heathrow	1,280	460	265	63	2,068	1,089	-	1,089
Heathrow Express	-	-	-	116	116	66	-	66
	1,280	460	265	179	2,184	1,155	-	1,155
Other airports								
Glasgow	44	28	11	4	87	31	-	31
Aberdeen	33	11	8	5	57	20	-	20
Southampton	16	8	2	1	27	8	-	8
	93	47	21	10	171	59	-	59
Other operations	-	2	-	5	7	12	-	12
Total	1,373	509	286	194	2,362	1,226	-	1,226

Reconciliation to statutory information

Unallocated income and expenses	
Depreciation and amortisation (table (c))	(518)
Operating profit (before certain re-measurements)	708
Fair value gain on investment properties (certain re-measurements)	49
Exceptional impairment	(5)
Finance income	268
Finance costs	(982)
Fair value gain on financial instruments (certain re-measurements)	67
Profit before tax	105
Taxation before certain re-measurements	81
Taxation (certain re-measurements)	20
Taxation	101
Profit for the year – continuing operations	206
Profit from discontinued operations (Note 6)	103
Consolidated profit for the year ended 31 December 2012	309

[1] The income statement for 2012 has been restated following the adoption of IAS 19R, which affected the measurement and presentation of pension-related gains and losses, and IAS 12A, which affected the measurement of deferred tax on investment properties. Refer to the accounting policies for further details.

1 Segment information *continued*

Table (c)

	Year ended 31 December 2013			Year ended 31 December 2012		
	Depreciation and amortisation[1] £m	**Fair value gain/ (loss)[2] £m**	**Profit on disposals £m**	Depreciation and amortisation[1] £m	Fair value gain/ (loss)[2] £m	Profit on disposals £m
Heathrow	**414**	**62**	**-**	441	49	1
Heathrow Express	**42**	**-**	**-**	42	-	-
	456	**62**	**-**	483	49	1
Other airports						
Glasgow	**21**	**4**	**-**	21	3	-
Aberdeen	**9**	**18**	**-**	9	3	-
Southampton	**3**	**(7)**	**-**	3	(6)	-
	33	**15**	**-**	33	-	-
Other operations	**2**	**-**	**-**	2	-	-
Continuing operations	**491**	**77**	**-**	518	49	1
Discontinued operations	**-**	**-**	**148**	28	(5)	38
Total	**491**	**77**	**148**	546	44	39

1 Includes intangible asset amortisation of £26 million (2012: £20 million).
2 Reflects fair value gains and losses on investment properties only.

Table (d)

	31 December 2013			31 December 2012 (restated)[1]		
	Assets[2] £m	**Liabilities £m**	**Capital expenditure £m**	Assets[2] £m	Liabilities £m	Capital expenditure £m
Heathrow	**15,525**	**(511)**	**1,309**	14,379	(435)	1,144
Heathrow Express	**1,027**	**(6)**	**11**	1,026	(5)	16
	16,552	**(517)**	**1,320**	15,405	(440)	1,160
Other airports						
Glasgow	**572**	**(24)**	**17**	572	(15)	9
Aberdeen	**321**	**(10)**	**4**	308	(11)	4
Southampton	**116**	**(5)**	**2**	125	(5)	3
	1,009	**(39)**	**23**	1,005	(31)	16
Other operations	**98**	**(85)**	**-**	134	(105)	-
Discontinued operations[3]	**-**	**-**	**3**	1,593	(253)	25
Total operations	**17,659**	**(641)**	**1,346**	18,137	(829)	1,201
Unallocated assets and liabilities:						
Cash, borrowings and available-for-sale investments	**185**	**(12,673)**		193	(12,844)	
Derivative financial instruments	**308**	**(1,179)**		322	(1,249)	
Retirement benefit obligations	**-**	**(121)**		-	(133)	
Taxation	**-**	**(1,111)**		-	(1,278)	
Total	**18,152**	**(15,725)**	**1,346**	18,652	(16,333)	1,201

1 The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. Refer to the Accounting policies for further detail.
2 Segment assets include primarily airport runways and facilities as well as goodwill and right to operate allocated to the reportable segments.
3 At 31 December 2012 discontinued operations related to Stansted airport.

1 Segment information *continued*

Section (e)
Heathrow Airport Holdings Limited is domiciled in the UK. All revenue from external customers comes from the UK which for the year ended 31 December 2013 was £2,652 million (2012: £2,362 million). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

Non-current assets excluding derivative financial instruments and post-employment benefit assets were £17,387 million (2012: £16,273 million). There were no non-current assets held outside the UK (2012: £nil).

2 Operating costs – continuing operations

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Operating costs (including exceptional items) include the following:		
Employment costs		
Wages and salaries	**374**	338
Social security	**36**	34
Pensions	**71**	62
Share-based payments	**-**	1
Contract and agency staff	**24**	20
Other staff related	**28**	19
	533	474
Depreciation and amortisation		
Property, plant and equipment	**465**	498
Intangible assets	**26**	20
	491	518
Other operating costs		
Retail expenditure	**27**	27
Retail marketing	**6**	5
Maintenance expenditure	**191**	182
Insurance	**17**	16
Other marketing and communications	**26**	20
Rents and rates	**133**	139
Utility costs	**101**	99
Police	**32**	32
Aerodrome navigation service charges	**78**	76
General expenses	**170**	150
Own work capitalised	**(103)**	(84)
	678	662
Total operating costs	**1,702**	1,654
Analysed as:		
Adjusted operating costs	**1,165**	1,136
Depreciation and amortisation	**491**	518
Exceptional costs (Note 3)	**46**	-
Total operating costs	**1,702**	1,654

1 The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

The table below analyses operating costs into categories representing their underlying nature to enable more meaningful comparison year on year.

Notes to the Group financial statements *continued*

2 Operating costs – continuing operations *continued*

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Employment costs	**447**	430
Maintenance expenditure	**177**	170
Utility costs	**92**	96
Rents and rates	**126**	131
General expenses	**296**	283
Retail expenditure	**27**	27
Disposal of fixed assets	**-**	(1)
Total adjusted operating costs	**1,165**	1,136
Depreciation and amortisation	**491**	518
Exceptional costs (Note 3)	**46**	-
Total operating costs	**1,702**	1,654

1 The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

Rentals under operating leases

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating costs include:		
Plant and machinery	**30**	28
Other	**18**	20
	48	48
Property lease and sub-lease charges – minimum lease payments	**16**	20

Auditor's remuneration

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Fees payable to the Company's auditor for the audit of the Group's annual accounts		
The audit of the Company's subsidiaries pursuant to legislation[1]	**0.5**	0.5
Total audit fees	**0.5**	0.5
Fees payable to the Company's auditor and their associates for other services to the Group		
Audit related assurance services	**0.3**	0.2
Other tax services	**0.1**	-
Other assurance services	**0.2**	0.3
Total non-audit fees	**0.6**	0.5
Total fees[2]	**1.1**	1.0

1 Fees payable to the Company's auditors for the audit of the Company's annual accounts was £21,000 (2012: £21,000).
2 In the year ended 31 December 2012 auditor's remuneration includes services provided for both continuing and discontinued operations.

Employee numbers

The average monthly number of employees (including executive directors) within the Group was as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Continuing operations		
United Kingdom		
Airports	**6,753**	6,089
Other operations	**601**	1,317
Total continuing operations	**7,354**	7,406
Discontinued operations		
United Kingdom		
Airports	**1,035**	1,308
Total	**8,389**	8,714

2 Operating costs – continuing operations *continued*

Employee numbers continued

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.

Management and directors remuneration

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Key management compensation[1]		
Salaries and benefits[2,3]	**9,612**	7,734
Sum paid to related parties for directors' services	**1,200**	1,200
Termination benefits	**758**	-
	11,570	8,934

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

[2] For the year ended 31 December 2013 salaries and benefits includes salaries, allowances, director fees, company pension contributions, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

[3] £2,152,000 of bonus was paid in cash in 2013 (2012: £1,734,000).

Key management 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. Key management's compensation includes £665,000 payable in 2014 (2012: £477,000 paid in 2013 in relation to £552,000 accrued) 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.

Directors' remuneration

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Aggregate emoluments[1,2]	**3,628**	3,457
Value of company pension contributions to defined contribution scheme	**-**	-
Sums paid to related parties for directors' services	**1,200**	1,200
	4,828	4,657

[1] For the year ended 31 December 2013 aggregate emoluments includes salaries, allowances, director fees, accrued bonuses and amounts payable under long term incentive plans ('LTIP').

[2] £903,000 of bonus was paid in cash in 2013 (2012: £874,000).

The directors participate 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 £320,000 payable in 2014 (2012: £216,000 paid in 2013 in relation to the £237,000 accrued) 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.

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

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

Highest paid director

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Salary and allowances	**1,110**	1,102
Value of company pension contributions to defined contribution scheme	**-**	-
Bonus accrued	**857**	771
Amount accrued under LTIP	**320**	237
	2,287	2,110

2 Operating costs – continuing operations *continued*

Management and directors remuneration continued

In 2013 no company pension contributions were made in respect of the highest paid director (2012: none) but an amount was instead paid within salary and allowances. During the year, the highest paid director had no retirement benefits accruing to him under a defined benefit scheme and no retirement benefits accruing to him under a defined contribution scheme. £771,000 of bonus was paid in cash in 2013 (2012: £735,000).

The highest paid director 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 highest paid director's remuneration includes £320,000 payable in 2014 (2012: £216,000 paid in 2013 in relation to the £237,000 accrued) 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.

3 Exceptional items – continuing operations

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Restructure		**(22)**	-
Heathrow Terminal 2 operational readiness		**(16)**	-
VAT costs		**(8)**	-
Total operating exceptional items before income tax		**(46)**	-
Impairment of property, plant and equipment	*8*	**-**	(5)
Total non-operating exceptional items before income tax		**-**	(5)
Tax credit on exceptional items		**8**	1
Total exceptional items after tax		**(38)**	(4)

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.

Following the Supreme Court's refusal to allow the Group to appeal a decision of the Court of Appeal, the Group can no longer contest HMRC's refusal to refund £8 million relating to VAT it incurred on costs associated with the acquisition of BAA plc in 2006. The balance maintained during the course of the appeal process was therefore charged to the income statement.

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 Financing – continuing operations
a) Net finance costs

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Finance income		
Income from available-for-sale financial assets	**2**	2
Interest receivable on derivatives not in hedge relationship	**228**	261
Interest on money market and bank deposits	**3**	1
Net pension finance income	**-**	4
	233	268
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[2]	**(580)**	(556)
Bank loans and overdrafts and related hedging instruments	**(140)**	(209)
Interest payable on derivatives not in hedge relationship[3]	**(291)**	(296)
Facility fees and other charges	**(16)**	(22)
Unwinding of discount on provisions	**(1)**	-
Net pension finance costs	**(3)**	-
Total borrowing costs	**(1,031)**	(1,083)
Less: capitalised borrowing costs[4] (Note 8)	**164**	101
	(867)	(982)
Net finance costs before certain re-measurements	**(634)**	(714)

1 The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to Accounting policies for further details.
2 Includes accretion of £20 million (2012: £18 million) on index-linked bonds.
3 Includes accretion of £182 million (2012: £173 million) on index-linked swaps.
4 Capitalised borrowing costs were calculated by applying an average interest rate of 6.37% (2012: 4.94%) to expenditure incurred on qualifying assets.

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Interest rate swaps: cash flow hedge[1,2]	**23**	(66)
Interest rate swaps: not in hedge relationship	**54**	-
Cross-currency swaps: cash flow hedge[1]	**2**	2
Cross-currency swaps: fair value hedge[1]	**(14)**	3
Index-linked swaps: not in hedge relationship[3]	**(147)**	109
Equity swaps	**12**	19
Fair value re-measurements of foreign exchange contracts and currency balances	**1**	-
Total fair value (loss)/gain on financial instruments	**(69)**	67
Net finance costs	**(703)**	(647)

1 Hedge ineffectiveness on derivatives in hedge relationships.
2 The £66 million loss for the year ended 31 December 2012 mainly related to the release of hedge reserves to the income statement resulting from the termination of certain swaps held at the Airport Holdings NDH1 group due to the reduction of its loan facilities following the sale of Edinburgh airport.
3 Reflects the impact on the valuation of movements in implied future inflation and interest rates and accounting adjustment in respect of accretion.

5 Taxation – continuing operations

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
UK corporation tax		
Current tax at 23.25% (2012: 24.5%)	**(13)**	(13)
Over provision in respect of prior years	**3**	9
Deferred tax		
Current year	**(40)**	(13)
Prior year	**4**	(1)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**179**	119
Taxation credit for the year	**133**	101

[1] The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

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

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Profit before tax	**324**	105
Reconciliation of the tax credit		
Tax calculated at the UK statutory rate of 23.25% (2012: 24.5%)	**(75)**	(26)
Adjustments in respect of current income tax of previous years	**3**	9
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	**179**	119
Non-taxable income	**22**	-
Adjustments in respect of deferred income tax of previous years	**4**	(1)
Taxation credit for the year	**133**	101

[1] The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

The tax credit recognised for the year was £133 million (2012: £101 million restated). Based on a profit before tax for the year of £324 million (2012: £105 million restated), this results in a negative effective tax rate of 41.0% (2012: 96.2%).

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. As a result, the Group's deferred tax balances, which were previously provided at 23%, have been re-measured at a rate of 20% in the year ended 31 December 2013. This has resulted in a reduction in the net deferred tax liability of £146 million, with £179 million credited to the income statement and £33 million charged to reserves.

Excluding the impact of the change in tax rate, the tax charge recognised for the year on ordinary activities of £46 million (2012: £18 million restated) results in an effective tax rate of 14.2% (2012: 17.1%). The tax charge is less than implied by the statutory rate of 23.25% (2012: 24.5%) primarily due to non-taxable income.

6 Discontinued operations

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

On 28 February 2013 the Group completed the disposal of its 100% shareholding in Stansted Airport Limited ('Stansted airport') to Manchester Airports Group for a cash consideration of £1,500 million generating a profit on disposal of £147 million. Stansted airport had been classified as held-for-sale in 2012.

On 31 May 2012 the Group completed the disposal of its 100% shareholding in Edinburgh Airport Limited ('Edinburgh airport') to Global Infrastructure Partners for a cash consideration of £807 million, generating a profit on disposal of £38 million.

The results from all discontinued operations which have been included in the consolidated income statement have been disclosed below and include adjustments relating to previous disposals. The profit on disposal of discontinued operations has also been disclosed together with an analysis of the cash inflow reported in the consolidated statement of cash flows.

Profit from discontinued operations

	Year ended 31 December 2013			Restated[1] Year ended 31 December 2012		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	**32**	**-**	**32**	284	-	284
Operating costs						
Depreciation and amortisation	**-**	**-**	**-**	(28)	-	(28)
Other	**(24)**	**-**	**(24)**	(176)	-	(176)
Other items						
Fair value loss on investment properties	**-**	**-**	**-**	-	(5)	(5)
Operating profit	**8**	**-**	**8**	80	(5)	75
Exceptional disposal costs[2]	**-**	**-**	**-**	(4)	-	(4)
Profit on disposal of operations[3]	**148**	**-**	**148**	38	-	38
Financing						
Finance costs	**(3)**	**-**	**(3)**	(18)	-	(18)
Fair value gain on financial instruments	**-**	**-**	**-**	-	4	4
	(3)	**-**	**(3)**	(18)	4	(14)
Profit/(loss) before tax	**153**	**-**	**153**	96	(1)	95
Tax credit/(charge) on profit/(loss)	**99**	**-**	**99**	23	(15)	8
Profit/(loss) for the year	**252**	**-**	**252**	119	(16)	103

1 The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. Refer to the Accounting policies for further details.
2 In the year ended 31 December 2012 disposal costs of £4 million were incurred.
3 Attributable primarily to the disposals of Stansted airport in 2013 and Edinburgh airport in 2012.

The net assets of discontinued operations have been disclosed in Note 24.

6 Discontinued operations *continued*

Profit on disposal of operations

	Year ended 31 December 2013		
	Stansted Airport £m	**Other £m**	**Total £m**
Cash consideration	**1,500**	**-**	**1,500**
Transaction and separation costs paid	(20)	(4)	(24)
Net cash consideration	**1,480**	**(4)**	**1,476**
Transaction and separation costs (accrued)/utilised	**(5)**	**5**	**-**
Net assets disposed			
Property, plant and equipment	(701)	-	(701)
Investment properties	(577)	-	(577)
Intangible assets, including goodwill	(257)	-	(257)
Other assets	(30)	-	(30)
Cash and cash equivalents	(31)	-	(31)
Deferred income tax liabilities	227	-	227
Other liabilities	29	-	29
	(1,340)	**-**	**(1,340)**
Gain on transfer of retirement benefit obligations	**12**	**-**	**12**
Profit on disposal	**147**	**1**	**148**

Disposal proceeds and investing activities from discontinued operations

	Year ended 31 December 2013		
	Stansted Airport £m	**Other £m**	**Total £m**
Net cash consideration (above)	1,480	(4)	1,476
Cash and cash equivalents disposed of with subsidiary undertaking	(31)	-	(31)
Retirement benefit commutation paid to pension scheme	(35)	-	(35)
Disposal proceeds from discontinued operations	**1,414**	**(4)**	**1,410**

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

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

7 Dividends

During 2013, the Company made quarterly dividend payments to its ultimate shareholders totalling £255 million (2012: £240 million). A further £300 million return was made to the Company's ultimate shareholders on their historic investment in Stansted airport following its disposal. The remaining £141 million of the total £696 million (2012: £357 million) in dividends paid in 2013 related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries.

8 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings[1] £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2012		8,440	1,361	354	93	1,265	1,845	13,358
Additions		2	-	8	-	-	1,135	1,145
Transfers to completed assets		411	21	24	12	2	(470)	-
Borrowing costs capitalised	*4*	-	-	-	-	-	101	101
Disposals		(23)	(1)	(15)	-	(4)	(2)	(45)
Net transfer to investment properties	*9*	-	-	-	-	-	(63)	(63)
Reclassifications		113	(119)	(2)	(11)	(1)	21	1
Transferred to assets held-for-sale		(753)	(52)	(76)	12	(17)	(50)	(936)
1 January 2013		**8,190**	**1,210**	**293**	**106**	**1,245**	**2,517**	**13,561**
Additions		**10**	**-**	**5**	**-**	**-**	**1,263**	**1,278**
Transfers to completed assets		**226**	**18**	**67**	**19**	**44**	**(374)**	**-**
Borrowing costs capitalised	*4*	**-**	**-**	**-**	**-**	**-**	**164**	**164**
Disposals		**(95)**	**(1)**	**(63)**	**(1)**	**(29)**	**-**	**(189)**
Net transfer to investment properties	*9*	**-**	**-**	**-**	**1**	**-**	**(12)**	**(11)**
31 December 2013		**8,331**	**1,227**	**302**	**125**	**1,260**	**3,558**	**14,803**
Depreciation and impairment								
1 January 2012		(1,683)	(239)	(155)	(33)	(213)	-	(2,323)
Charge for the year		(375)	(46)	(54)	(7)	(42)	-	(524)
Impairment	*3*	-	-	(3)	-	-	(2)	(5)
Disposals		23	1	15	-	4	2	45
Reclassifications		(43)	33	2	3	5	-	-
Transferred to assets held-for-sale		162	3	50	13	14	-	242
1 January 2013		**(1,916)**	**(248)**	**(145)**	**(24)**	**(232)**	**-**	**(2,565)**
Charge for the year		**(328)**	**(40)**	**(48)**	**(7)**	**(42)**	**-**	**(465)**
Disposals		**92**	**1**	**62**	**1**	**29**	**-**	**185**
31 December 2013		**(2,152)**	**(287)**	**(131)**	**(30)**	**(245)**	**-**	**(2,845)**
Net book value								
31 December 2013		**6,179**	**940**	**171**	**95**	**1,015**	**3,558**	**11,958**
31 December 2012		6,274	962	148	82	1,013	2,517	10,996

[1] Other land and buildings are freehold except for certain short leasehold properties with a net book value 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 Heathrow Terminal 2 and its satellite building. They also include the Heathrow Terminal 3 integrated baggage system which incorporates a new baggage facility.

Impairment
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 (refer to Note 3).

Borrowing costs capitalised
The amount of borrowing costs included in the cost of Group assets was £1,075 million (2012: £1,323 million). Capitalised borrowing costs for the year were calculated by applying an average interest rate of 6.37% (2012: 4.94%) to expenditure incurred on qualifying assets.

A tax deduction of £164 million (2012: £101 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 16.

9 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
1 January 2012		2,530	5	2,535
Additions		9	-	9
Net transfers from property, plant and equipment	*8*	(2)	65	63
Revaluation[1]		41	3	44
Transferred to completed assets		5	(5)	-
Disposals		(2)	-	(2)
Transferred to assets held-for-sale		(581)	-	(581)
1 January 2013		**2,000**	**68**	**2,068**
Additions		**1**	**30**	**31**
Transfers from property, plant and equipment	*8*	**12**	**-**	**12**
Transfers to property, plant and equipment	*8*	**(1)**	**-**	**(1)**
Revaluation		**44**	**33**	**77**
31 December 2013		**2,056**	**131**	**2,187**

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

Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors (2012: CBRE Limited, Chartered Surveyors and Strutt & Parker, Chartered Surveyors). In 2012 Strutt & Parker were responsible solely for the valuations of residential property and agricultural land at Stansted airport.

Details of valuations performed are provided below:

	31 December 2013 £m	31 December 2012[1] £m
CBRE Limited	**2,187**	2,561
Strutt & Parker	**-**	84
At professional valuation	**2,187**	2,645

1 At 31 December 2012 £577 million related to investment properties held by Stansted airport, which had been classified as discontinued operations (Note 24).

All valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. There were no restrictions on the realisability or remittance of income or proceeds on disposal. The fair value measurement hierarchy used in calculating fair value (refer to Note 18) has been classified as level 3. The higher the discount rate, terminal yield and expected vacancy rate, the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

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

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

Included in investment properties are assets with a fair value of £45 million (2012: £52 million) which the Group has provided as security for the £30 million debenture due 2017. Security granted by the Group over its assets, including investment properties, is disclosed in Note 16.

Notes to the Group financial statements *continued*

10 Intangible assets

	Goodwill £m	Right to operate £m	Software costs £m	Retail contracts £m	Other £m	Total £m
Cost						
1 January 2012	3,092	477	158	127	7	3,861
Additions	-	-	37	-	-	37
Reclassifications	-	-	74	-	-	74
Transferred to assets held-for-sale	(250)	-	-	(12)	(1)	(263)
Disposals	-	-	(5)	-	(1)	(6)
1 January 2013	**2,842**	**477**	**264**	**115**	**5**	**3,703**
Additions	**-**	**-**	**48**	**-**	**-**	**48**
Disposals	**-**	**-**	**(142)**	**-**	**-**	**(142)**
31 December 2013	**2,842**	**477**	**170**	**115**	**5**	**3,609**
Amortisation and impairment						
1 January 2012	(89)	(289)	(104)	(75)	(3)	(560)
Charge for the year	-	-	(13)	(6)	-	(19)
Disposals	-	-	5	-	1	6
Reclassifications	-	-	(74)	-	-	(74)
Transferred to assets held-for-sale	-	-	-	6	-	6
1 January 2013	**(89)**	**(289)**	**(186)**	**(75)**	**(2)**	**(641)**
Charge for the year	**-**	**-**	**(19)**	**(7)**	**-**	**(26)**
Disposals	**-**	**-**	**142**	**-**	**-**	**142**
Reclassifications	**-**	**-**	**-**	**-**	**-**	**-**
Transferred to assets held-for-sale	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2013	**(89)**	**(289)**	**(63)**	**(82)**	**(2)**	**(525)**
Net book value						
31 December 2013	**2,753**	**188**	**107**	**33**	**3**	**3,084**
31 December 2012	2,753	188	78	40	3	3,062

Goodwill and right to operate

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

Right to operate relates to the Group's non-Heathrow airports' permission to levy charges on airline carriers for the use of airport infrastructure.

Goodwill and right to operate are allocated to the Group's cash-generating units ('CGUs'), identified as the individual airports.

A summary of the movements in the allocation by CGU is presented below:

	Goodwill			Right to operate		
	Heathrow £m	Stansted £m	Total £m	Glasgow £m	Aberdeen £m	Total £m
1 January 2012	2,753	250	3,003	101	87	188
Transferred to assets held-for-sale	-	(250)	(250)	-	-	-
31 December 2012 and 31 December 2013	**2,753**	**-**	**2,753**	**101**	**87**	**188**

The recoverable amount of the airports has been calculated using the fair value less cost to sell methodology. Fair value for the airports has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant business plans over the period until year 2038. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection has been calculated applying a multiple of 1.15xRAB or 13xEBITDA as appropriate.

10 Intangible assets *continued*

Goodwill and right to operate continued

An impairment test is a comparison of the carrying value of the assets of a CGU, that is, the individual airports, to their recoverable amount calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, impairment exists. Carrying values of goodwill and right to operate for each airport were tested for impairment as at 31 December 2013. Any resulting impairment charges were applied firstly to goodwill and, where no goodwill remained this was applied to the right to operate. No impairment charges resulted for any airport.

Heathrow

The Group used as the starting base for Heathrow's long-term business plan the latest operational projections submitted to the CAA in 2013, with the tariff path resulting from the CAA's final decision overlaid. Projections beyond Q6 reflect the work prepared for Heathrow's submission to the Airports Commission (including passenger forecasts, investment plans, expected income and cost) and the result of future regulatory settlements has been simulated.

Key assumptions

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

- Capital expenditure
  From 2019 onwards, a series of major projects have been included covering the maintenance and replacement of existing assets, in order to add capacity to the existing infrastructure to meet forecast demand while maintaining the quality of the service. The projections submitted to the Airports Commission have been used for this purpose.

- Return allowed by the regulator and discount rates
  The assumptions made for the return allowed by the regulator for future five yearly regulatory periods reflect a conservative view of the airport's cost of capital and expectations of the result of future price determinations. For Q6, the return assumed by the CAA is implicitly used when the tariff is overlaid. For future quinquennia, Heathrow makes an assumption as to what the right cost of capital would be. The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount in the base case was 7.5%.

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

Sensitivity analysis

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

Other airports

The detailed business plan for the Group's non-Heathrow airports was produced by consultants in preparation for the refinancing of the airport's loan facilities. This business plan is largely in line with management's projections for the period 2014-2018 as approved by the Heathrow Airport Holdings Board in January 2014. Combined operating cash flows for the airports over the first five years of the plan are greater than management's interim projections by 2%.

Projections beyond 2018 have been built taking into account long-term traffic evolution based on assumed economic drivers, investment plans targeted to tackle capacity constraints as they become critical according to the traffic forecast and relevant drivers of revenues and operational costs.

Key assumptions

The key assumptions used in determining the fair value of these airports are:

- Passenger growth
  Annual passenger growth is assumed to be 3% on average over the medium term and 2% over the long term.

- Capital expenditure
  Forecasts are driven by high level ratios (revenue and operating expense per passenger) and long-term investment programmes reflect the replacement of existing assets as they depreciate, together with capacity expansion plans in line with the airports' master plans.

- Inflation
  RPI and COPI projections for the period to December 2018 have been updated for recent forecast trends. Long-term average RPI and COPI have been set at 3%.

- Discount rate
  The discount rate for the airports has been calculated applying market references and assuming a 1.0 unlevered beta. The unlevered discount rate applied for the calculation of the recoverable amount of the airports is 9.3%. Sensitivities have been run as appropriate. The assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

10 Intangible assets *continued*
Other airports *continued*
Key assumptions continued
Sensitivity analysis
As at 31 December 2013, the estimated fair value of Aberdeen, Glasgow and Southampton airport exceeded their carrying values. A reduction in the combined enterprise value in excess of 20% for these airports would begin to lead to further impairments of their related intangible assets.

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

Software costs include assets in the course of construction of £66 million (2012: £44 million).

11 Available-for-sale investments

	2013 **£m**	2012 £m
Unlisted securities		
1 January	**27**	27
Loss recognised in equity	**(1)**	-
31 December	**26**	27

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

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031. A rate of 10% (2012: 10%) has been used as the discount factor.

Disclosure of the Group's financial risk management framework that includes the governance of its available-for-sale investments is included in Note 18.

12 Inventories

	31 December 2013 **£m**	31 December 2012 £m
Consumables	**10**	8

The total amount of inventories consumed in the year relating to continuing operations was £6 million (2012: £7 million) and relating to discontinued operations was £2 million (2012: £3 million).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

13 Trade and other receivables

	31 December 2013 £m	31 December 2012 £m
Non-current		
Prepayments[1]	**37**	25
Other receivables	**2**	2
Amounts owed by parent entity	**93**	93
	132	120
Current		
Trade receivables	**196**	187
Less: provision for impairment	**(3)**	(3)
Trade receivables – net	**193**	184
Prepayments	**65**	53
Other receivables	**30**	53
	288	290

1 Non-current prepayments include £22 million (2012: £10 million) financing fees on facilities not yet drawn. These are amortised over the term of the facility.

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

Unless otherwise stated, trade and other receivables do not contain impaired assets.

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

As at 31 December 2013, trade receivables of £179 million (2012: £169 million) were fully performing. Trade receivables of £13 million (2012: £10 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2013 £m	31 December 2012 £m
Fully performing	**179**	169
Past due but not impaired		
Not impaired but overdue by less than 30 days	**10**	6
Not impaired but overdue by between 30 and 60 days	**3**	4
Not impaired but overdue by more than 60 days	**-**	-
	13	10
Considered for impairment		
Overdue by more than 90 days	**4**	8

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

	2013 £m	2012 £m
1 January	**3**	3
Provision for receivables impairment	**1**	1
Receivables written off during the year as uncollectible	**(1)**	(1)
31 December	**3**	3

As at 31 December 2013, trade receivables of £4 million (2012: £8 million) were considered for impairment of which an amount of £3 million (2012: £3 million) was provided for, with the remaining amount expected to be fully recovered. The individually impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included in 'general expenses' in the consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery.

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 18.

Notes to the Group financial statements *continued*

14 Restricted cash

	31 December 2013	31 December 2012
	£m	£m
Cash account	**11**	31
Short-term deposits	**5**	3
	16	34

Restricted cash included the cash held separately to cover six months of interest on the Non-Designated airports facility.

15 Cash and cash equivalents

	31 December 2013	31 December 2012
	£m	£m
Cash at bank and in hand	**68**	97
Short-term deposits	**75**	35
	143	132

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

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments, and bank overdrafts. Cash and cash equivalents consist of:

	31 December 2013	31 December 2012
	£m	£m
Cash at bank and in hand – continuing operations	**79**	128
Cash at bank and in hand – discontinued operations (Note 24)	**-**	26
Short-term deposits	**80**	38
Bank overdraft (Note 16)	**-**	(24)
	159	168

16 Borrowings

	31 December 2013 £m	31 December 2012 £m
Current		
Secured		
Bank loans	**39**	39
Heathrow Funding Limited bonds:		
5.850% £400 million due 2013	**-**	397
4.600% €750 million due 2014	**572**	-
Total Heathrow Funding Limited bonds	**572**	397
Unsecured		
Bank loans and overdrafts	**-**	24
Total current (excluding interest payable)	**611**	460
Interest payable	**267**	261
Total current	**878**	721
Non-current		
Secured		
Heathrow Funding Limited bonds:		
4.600% €750 million due 2014	**-**	580
3.000% £300 million due 2015	**299**	299
2.500% US$500 million due 2015	**301**	306
12.450% £300 million due 2016	**341**	358
4.125% €500 million due 2016	**402**	387
4.375% €700 million due 2017	**581**	566
2.500% CHF400 million due 2017	**271**	268
4.600% €750 million due 2018	**614**	597
6.250% £400 million due 2018	**394**	395
4.000% CAD400 million due 2019	**225**	245
6.000% £400 million due 2020	**396**	396
9.200% £250 million due 2021	**292**	311
4.875% US$1,000 million due 2021	**605**	653
1.650% +RPI £180 million due 2022	**189**	184
5.225% £750 million due 2023	**730**	728
7.125% £600 million due 2024	**588**	588
6.750% £700 million due 2026	**683**	682
7.075% £200 million due 2028	**229**	230
6.450% £900 million due 2031	**992**	1,015
Zero-coupon €50 million due January 2032	**45**	42
Zero-coupon €50 million due April 2032	**45**	42
3.334% +RPI £460 million due 2039	**559**	544
5.875% £750 million due 2041	**733**	742
4.625% £750 million due 2046	**742**	-
Total Heathrow Funding Limited bonds	**10,256**	10,158
Heathrow Finance plc bonds:		
7.125% £325 million due 2017	**320**	319
5.375% £275 million due 2019	**273**	273
Total Heathrow Finance plc bonds	**593**	592
Total bonds	**10,849**	10,750
Bank loans – Heathrow	**255**	653
Bank loans – Other airports	**329**	373
Subordinated facilities	**161**	125
£30 million debenture due 2017	**36**	37
Total bank loans	**781**	1,188
Total external borrowings	**11,630**	11,938
Borrowings from parent	**165**	185
Total non-current	**11,795**	12,123
Total borrowings (excluding interest payable)	**12,406**	12,583

16 Borrowings *continued*

Heathrow Funding Limited bonds

The maturity dates of the Heathrow Funding Limited bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and Heathrow Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 6.250% £400 million due 2018, 6.000% £400 million due 2020 and 7.125% £600 million due 2024 bonds, wherein the redemption dates coincide with their legal maturity dates.

Fair value of borrowings

	31 December 2013		31 December 2012	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value £m
Non-current				
Long-term debt	**11,630**	**12,798**	11,938	13,458
Borrowings from parent	**165**	**165**	185	185
	11,795	**12,963**	12,123	13,643

1 Fair value of borrowings are for disclosure purposes only. Except for the £30 million debenture due 2017, which has a fair value of £40 million based on a discounted cash flow utilising yield curves derived from observable market data (Level 2), these instruments are classified as Level 1 as the fair values are based on quoted prices.

The fair value of short-term borrowings approximates book value. Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

The average cost of the Group's external gross debt at 31 December 2013 was 4.71% (2012: 4.44%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2013 was 6.05% (2012: 5.88%). The change in the average cost of debt is mainly due to an increase in the Group's proportion of fixed rate debt through the use of interest rate swaps.

Security and guarantees

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

Heathrow (DSH) Limited and Heathrow Finance plc have also granted security over their assets to secure their obligations under their financing agreements.

BAA Pension Trust Company Limited (the 'BAA Pension Scheme's Trustee') is a Borrower Secured Creditor and has a right to receive up to approximately £284 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

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

Heathrow Funding Limited has provided security to the Bond Trustee (as trustee for the Issuer Secured Creditors).

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

Non Des Topco Limited and each of its subsidiaries (other than BAA Lynton Limited) (together, the 'Non-Designated Obligors'), have granted security over their assets to secure their obligations under their financing agreements. Each Non-Designated Obligor, other than Non Des Topco Limited, has provided a cross-guarantee of the obligations of the other Non-Designated Obligors. The BAA Pension Scheme's Trustee has a right to receive up to £50 million out of the proceeds of enforcement of the security granted by the Non-Designated Obligors, such right ranking pari passu with the senior creditors to the Non-Designated Obligors.

Non Des Topco Limited has provided an indemnity to the BAA Pension Scheme's Trustee in respect of pension liabilities.

The £30 million debenture held by BAA Lynton Limited has a principal value of £30 million and is secured on certain properties and other assets of the Group with a fair value of £47 million.

Additional disclosures on risk management and hedging of borrowings are included in Notes 17 and 18.

17 Derivative financial instruments

31 December 2013	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Interest rate swaps	**123**	**-**	**(2)**	**(2)**
Cross currency swaps	**513**	**135**	**-**	**135**
Foreign exchange contracts	**21**	**-**	**-**	**-**
	657	**135**	**(2)**	**133**
Non-current				
Equity swaps	**3**	**8**	**-**	**8**
Interest rate swaps	**2,488**	**2**	**(254)**	**(252)**
Cross-currency swaps	**2,990**	**141**	**(69)**	**72**
Index-linked swaps	**5,266**	**22**	**(854)**	**(832)**
	10,747	**173**	**(1,177)**	**(1,004)**
Total	**11,404**	**308**	**(1,179)**	**(871)**

31 December 2012	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Equity swaps	133	-	(52)	(52)
Index-linked swaps	396	-	(39)	(39)
Foreign exchange contracts	34	-	-	-
	563	-	(91)	(91)
Non-current				
Equity swaps	9	16	-	16
Interest rate swaps	2,611	-	(466)	(466)
Cross-currency swaps	3,503	290	(30)	260
Index-linked swaps	5,066	16	(662)	(646)
	11,189	322	(1,158)	(836)
Total	11,752	322	(1,249)	(927)

Equity swaps
The Group has entered into a number of equity swaps to hedge Ferrovial share price risk under the Group's Executive Share Option Plan ('ESOP') – refer to Note 21. The total ESOP derivative portfolio consists of 1.0 million shares (2012: 11.7 million shares) at a total mark to market asset of £8 million as at 31 December 2013 (2012: £36 million liability).

Interest rate swaps
Interest rate swaps are maintained by the Group and designated as cash flow hedges, where they qualify, against variability in interest cash flows on current and future floating or fixed borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk.

Cross-currency swaps
Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on these swaps in cash flow hedge relationships will be continuously released to the income statement over the period to maturity of the hedged bonds.

Index-linked swaps
Index-linked swaps have been entered into to economically hedge debt instruments and RPI linked revenue.

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

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

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

18 Financial instruments *continued*

Financial risk management objectives and policies continued

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

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

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

Foreign exchange risk

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

As at 31 December 2013, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the Euro, annual pre-tax profit would have increased or decreased by £1 million and £1 million respectively (2012: £6 million decrease and £8 million increase respectively).

As at 31 December 2013, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the USD, annual pre-tax profit would have decreased or increased by £16 million and £4 million respectively (2012: £1 million decrease and £1 million increase respectively).

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

Price risk

The Group is not materially exposed to equity security price risk on investments held by the Group and classified on the consolidated statement of financial position as available-for-sale.

The Group is exposed to share price risk of Ferrovial, S.A., arising from its ESOP programme. The Group uses equity swaps to manage this exposure. As at 31 December 2013, if the Ferrovial share price had strengthened or weakened by 10%, annual pre-tax profit would have increased or decreased by £1 million (2012: £11 million).

The Group is exposed to RPI price risk on its index-linked bonds and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2013, with all other variables remaining constant, if the RPI had increased or decreased by 10%, annual pre-tax profit would have decreased or increased by £212 million and £204 million respectively (2012: £188 million decrease and £182 million increase respectively).

Cash flow and fair value interest rate risk

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

The Group also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

As at 31 December 2013, the Group's fixed floating interest rate profile, after hedging, on gross debt was 94:06 (31 December 2012: 80:20).

As at 31 December 2013, for each 0.50% change in interest rates, this would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the finance income, finance cost and mark-to-market valuation of financial instruments.

	31 December 2013		31 December 2012	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
0.50% increase	**152**	**79**	73	178
0.50% decrease	**(163)**	**(83)**	(77)	(188)

18 Financial instruments *continued*

Credit risk

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

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

As at 31 December 2013, the Group had total credit risk with derivative counterparties of its interest rate swaps, index linked swaps and cross currency swaps of £300 million (2012: £306 million).

Financial assets past due but not impaired are disclosed in Note 13 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2013 was £689 million (2012: £765 million).

Liquidity risk

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year. Further details of the risk management objectives and policies has been disclosed in the Internal controls and risk management section of the Strategic report.

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

	31 December 2013 £m	31 December 2012 £m
Floating rate facilities		
Expiring in one to two years	**105**	-
Expiring in more than two years	**2,000**	1,731
	2,105	1,731

As at 31 December 2013, undrawn uncommitted overdraft facilities of £15 million were available (2012: £15 million).

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

	31 December 2013			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**552**	**1,069**	**3,048**	**7,469**
Borrowing interest payments	**634**	**593**	**1,526**	**4,324**
Derivative financial instruments	**44**	**143**	**99**	**(204)**
Trade payables	**187**	**-**	**-**	**-**
Capital payables	**312**	**-**	**-**	**-**

	31 December 2012			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	436	702	3,411	7,644
Borrowing interest payments	628	607	1,571	3,770
Derivative financial instruments	95	25	149	(78)
Trade payables[1]	195	-	-	-
Capital payables[1]	271	-	-	-

1 These balances included £15 million trade payables and £7 million capital payables classified as held-for-sale. Refer to Note 24.

18 Financial instruments *continued*

Liquidity risk continued

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

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

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

Capital risk management

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

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to Regulatory Asset Base ('RAB') (for Heathrow) and net debt to earnings before particularly interest, tax, depreciation and amortisation ('EBITDA') (for the other airports). Net debt is external consolidated nominal net debt within the part of the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels including Heathrow Finance plc, Heathrow (SP) Limited and Airport Holdings NDH1 Limited. Gearing ratios of each of these are below:

	31 December 2013	31 December 2012
Net debt to RAB at Heathrow Finance plc	**0.82**	0.82
Total net debt to RAB at Heathrow (SP) Limited	**0.77**	0.77
Senior net debt to RAB at Heathrow (SP) Limited	**0.68**	0.66
Net debt to EBITDA at Airport Holdings NDH1 Limited	**4.93**	5.85

18 Financial instruments *continued*

Financial instruments by category

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

	31 December 2013				
	Loans and receivables £m	**Assets at fair value through income statement £m**	**Derivatives qualifying for hedge accounting £m**	**Available-for- sale £m**	**Total £m**
Available-for-sale investments	**-**	**-**	**-**	**26**	**26**
Derivative financial instruments	**-**	**32**	**276**	**-**	**308**
Cash and cash equivalents	**159**	**-**	**-**	**-**	**159**
Trade receivables	**193**	**-**	**-**	**-**	**193**
Other receivables	**3**	**-**	**-**	**-**	**3**
Total financial assets	**355**	**32**	**276**	**26**	**689**

	31 December 2013			
	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities at amortised cost £m**	**Total £m**
Borrowings	**-**	**-**	**(12,406)**	**(12,406)**
Derivative financial instruments	**(954)**	**(225)**	**-**	**(1,179)**
Trade payables	**-**	**-**	**(187)**	**(187)**
Capital payables	**-**	**-**	**(312)**	**(312)**
Total financial liabilities	**(954)**	**(225)**	**(12,905)**	**(14,084)**

	31 December 2012				
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available-for-sale £m	Total £m
Available-for-sale investments	-	-	-	27	27
Derivative financial instruments	-	32	290	-	322
Cash and cash equivalents[1]	192	-	-	-	192
Trade receivables[1]	211	-	-	-	211
Other receivables[1]	13	-	-	-	13
Total financial assets	416	32	290	27	765

	31 December 2012			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	-	(12,583)	(12,583)
Derivative financial instruments	(753)	(496)	-	(1,249)
Trade payables[1]	-	-	(195)	(195)
Capital payables[1]	-	-	(271)	(271)
Total financial liabilities	(753)	(496)	(13,049)	(14,298)

[1] These balances included £26 million cash and cash equivalents, £27 million trade receivables, £15 million trade payables and £7 million capital payables classified as held-for-sale. Refer to Note 24.

18 Financial instruments *continued*

Financial instruments by category continued

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

Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The tables below present the Group's assets and liabilities that are measured at fair value as at 31 December:

	31 December 2013			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Assets at fair value through income statement	**-**	**32**	**-**	**32**
Derivatives qualifying for hedge accounting	**-**	**276**	**-**	**276**
Available-for-sale investments	**-**	**-**	**26**	**26**
Total assets	**-**	**308**	**26**	**334**
Liabilities				
Liabilities at fair value through income statement	**-**	**(954)**	**-**	**(954)**
Derivatives qualifying for hedge accounting	**-**	**(225)**	**-**	**(225)**
Total liabilities	**-**	**(1,179)**	**-**	**(1,179)**

	31 December 2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	32	-	32
Derivatives qualifying for hedge accounting	-	290	-	290
Available-for-sale investments	-	-	27	27
Total assets	-	322	27	349
Liabilities				
Liabilities at fair value through income statement	-	(753)	-	(753)
Derivatives qualifying for hedge accounting	-	(496)	-	(496)
Total liabilities	-	(1,249)	-	(1,249)

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

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

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

Specific valuation techniques used to value financial instruments include:

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

Notes to the Group financial statements *continued*

18 Financial instruments *continued*

Fair value estimation continued

On a semi-annual basis, the Company reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period.

The following table presents the changes in Level 3 instruments for the year ended 31 December:

	Note	2013 £m	2012 £m
1 January		**27**	27
Loss recognised in equity	27	**(1)**	-
31 December		**26**	27

19 Deferred income tax

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

	Note	2013 £m	Restated[1] 2012 £m
1 January (restated[1])		**(1,152)**	(1,509)
Charged to income statement[2]		**(36)**	(30)
Credited to income statement – change in tax rate[3]		**179**	142
(Charged)/credited to equity	27	**(42)**	42
Charged to equity – change in tax rate	27	**(33)**	(16)
Transfers to held-for-sale		**-**	224
Disposal of operations		**-**	(5)
31 December		**(1,084)**	(1,152)

1 The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

2 During the year ended 31 December 2012 £15 million related to discontinued operations.

3 During the year ended 31 December 2012 £23 million tax credit related to discontinued operations.

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities 2013

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Revaluations of property plant, and equipment £m	Fair value of retail contracts and right to operate £m	Post employment benefits £m	Other £m	Total £m
1 January 2013	**(1,079)**	**(236)**	**(88)**	**(52)**	**-**	**(36)**	**(1,491)**
Credited/(charged) to income statement	**(44)**	**(5)**	**-**	**1**	**-**	**2**	**(46)**
Credited to income statement - change in tax rate	**136**	**21**	**14**	**7**	**-**	**4**	**182**
Charged to equity	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Credited/(charged) to equity – change in tax rate	**-**	**10**	**(2)**	**-**	**-**	**-**	**8**
31 December 2013	**(987)**	**(210)**	**(77)**	**(44)**	**-**	**(30)**	**(1,348)**

19 Deferred income tax *continued*

Deferred income tax assets 2013

	Capital losses £m	Non trade deficit £m	Financial instruments £m	Fair value of long-term borrowings £m	Fair value uplift of bonds £m	Post employment benefits £m	Total £m
1 January 2013	**14**	**121**	**88**	**55**	**33**	**28**	**339**
Credited/(charged) to income statement	**-**	**(4)**	**25**	**(5)**	**(4)**	**(2)**	**10**
(Charged)/credited to income statement – change in tax rate	**(2)**	**(16)**	**9**	**(7)**	**(4)**	**17**	**(3)**
(Charged)/credited to equity	**-**	**-**	**(46)**	**-**	**-**	**5**	**(41)**
Charged to equity – change in tax rate	**-**	**-**	**(20)**	**-**	**-**	**(21)**	**(41)**
31 December 2013	**12**	**101**	**56**	**43**	**25**	**27**	**264**

Deferred income tax liabilities 2012

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Revaluations of property plant, and equipment £m	Fair value of retail contracts and right to operate £m	Post employment benefits £m	Other £m	Total £m
1 January 2012	(1,376)	(345)	(102)	(60)	(1)	(51)	(1,935)
Credited/(charged) to income statement	54	(3)	-	2	(8)	6	51
Credited to income statement - change in tax rate	113	20	10	6	10	3	162
Credited to equity	-	-	-	-	42	-	42
Credited/(charged) to equity – change in tax rate	-	8	(1)	-	(10)	1	(2)
Transfers to held-for-sale	133	84	5	2	(4)	4	224
Disposal of operations	(3)	-	-	(2)	(1)	1	(5)
Transfers from deferred income tax asset	-	-	-	-	(28)	-	(28)
31 December 2012	(1,079)	(236)	(88)	(52)	-	(36)	(1,491)

Deferred income tax assets 2012

	Capital losses £m	Non trade deficit £m	Financial instruments £m	Fair value of long-term borrowings £m	Fair value uplift of bonds £m	Post employment benefits £m	Total £m
1 January 2012	15	136	167	70	38	-	426
Credited/(charged) to income statement	-	(4)	(66)	(9)	(2)	-	(81)
(Charged)/credited to income statement – change in tax rate	(1)	(11)	1	(6)	(3)	-	(20)
Charged to equity							
Charged to equity – change in tax rate	-	-	(14)	-	-	-	(14)
Transfers to deferred income tax liability	-	-	-	-	-	28	28
31 December 2012	14	121	88	55	33	28	339

19 Deferred income tax *continued*

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

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Cash flow hedge reserve	**(46)**	-
Tax relating to indexation of operating land	**(1)**	-
Retirement benefit obligations	**5**	42
Change in tax rate	**(33)**	(16)
	(75)	26

1 The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. As a result, the Group's deferred tax balances, which were previously provided at 23%, have been re-measured at a rate of 20% in the year ended 31 December 2013. This has resulted in a reduction in the net deferred tax liability of £146 million, with £179 million credited to the income statement and £33 million charged to reserves.

20 Retirement benefit obligations

For the purpose of these financial statements, the Group has applied the requirements of the standard IAS 19 Employee Benefits (Revised 2011) for the year ended 31 December 2013, which introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The total cost of defined contribution pension arrangements are fully expensed as employment costs. Comparative figures for the years ended 31 December 2012 and 2011 are also included.

Characteristics of the Group's pension related liabilities

The Group operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution pension schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The Group has no further payment obligations once the contributions have been paid.

The Group's primary defined benefit UK pension fund is a self-administered defined benefit scheme (the BAA Pension Scheme or the 'Scheme') now closed to new employees. As required by UK pension law, there is a Pension Trustees Board that, together with the Group, is responsible for governance of the Scheme. The employer's contributions are determined based on triennial valuations conducted on assumptions determined by the Trustees and agreed by the Group. The defined benefit obligation or surplus is calculated quarterly by independent actuaries.

The last formal valuation of the Scheme was carried out at 30 September 2010.Updating to 30 September 2012 and adjusting for airport disposals, the split of liabilities on the on-going actuarial basis is approximately 26% in respect of current active employees, 21% in respect of former employees yet to reach retirement and 53% in respect of members in receipt of pensions. The weighted average duration of the Scheme's liabilities is approximately 18 years.

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

Amounts arising from pensions related liabilities in the Group's financial statements

The following tables identify the amounts in the Group's financial statements arising from its pension related liabilities. Further details of each scheme (except defined contribution schemes) are within sections a) and b).

20 Retirement benefit obligations *continued*

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Employment costs:			
Defined contribution schemes	**8**	6	5
BAA Pension Scheme	**62**	60	32
Unfunded schemes	**1**	1	1
	71	67	38
Finance cost/(income) BAA Pension Scheme	**3**	(3)	1
Total pension costs – continuing operations	**74**	64	39
Pension costs - discontinued operations			
within employment costs:			
Defined contribution schemes	**-**	-	-
BAA Pension Scheme	**1**	8	6
within finance cost/(income) – BAA Pension Scheme	**-**	(1)	-
Total pension costs – discontinued operations	**1**	7	6
Total pension costs	**75**	71	45

Other comprehensive income – (loss)/gain on pension and other pension related liabilities

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
BAA Pension Scheme	**(65)**	(194)	30
Unfunded schemes	**2**	(1)	(6)
Actuarial (loss)/gain recognised before tax	**(63)**	(195)	24
Tax credit/(charge) on actuarial gain/(loss)	**5**	45	(6)
Actuarial (loss)/gain recognised after tax	**(58)**	(150)	18

Statement of financial position – net defined benefit pension (deficit)/surplus and other pension related liabilities

The Group's liabilities in relation to pensions are recognised within non-current liabilities or assets if the pension schemes are in a deficit or surplus position, respectively. The net deficit or surplus is presented below for the current and previous four financial years.

	Year ended 31-Dec-13 £m	Year ended 31-Dec-12 £m	Year ended 31-Dec-11 £m	Year ended 31-Dec-10 £m	Year ended 31-Dec-09 £m
Fair value of plan assets at end of year	**2,867**	2,791	2,691	2,359	2,029
Benefit obligation at end of year	**(2,960)**	(2,894)	(2,652)	(2,403)	(2,285)
(Deficit)/surplus in BAA Pension Scheme	**(93)**	(103)	39	(44)	(256)
Unfunded pension obligations	**(22)**	(24)	(23)	(19)	(18)
Post-retirement medical benefits	**(6)**	(6)	(6)	(4)	(4)
Deficit in other pension related liabilities	**(28)**	(30)	(29)	(23)	(22)
Net (deficit)/surplus in pension schemes	**(121)**	(133)	10	(67)	(278)

(a) BAA Pension Scheme

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

The value placed on the liabilities of the Scheme as at 31 December 2013 is based on a roll forward of the detailed valuation calculations carried out by the trustees as at 30 September 2010 based on individual member data. The liabilities have been calculated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS 19 Employee Benefits (Revised 2011). The Scheme assets are stated at their bid value at 31 December 2013. As required by IAS19 Revised, the Group recognises remeasurements as they occur in the statement of comprehensive income.

20 Retirement benefit obligations *continued*
(a) BAA Pension Scheme *continued*
Analysis of amounts recognised of the net defined pension (deficit)/surplus

	2013 £m	2012 £m	2011 £m
Net defined benefit pension (deficit)/surplus at 1 January	**(103)**	39	(44)
Defined benefit obligation at 1 January	**2,894**	2,652	2,403
Income statement:			
Current service cost	**58**	61	55
Past service cost[1]	**(22)**	-	(26)
Interest cost	**121**	124	130
Experience (gains) and losses	**2**	(3)	71
Remeasurements of defined benefit obligation:			
arising from changes in demographic assumptions	**(26)**	-	15
arising from changes in financial assumptions	**112**	186	79
Cash flows:			
Members' contributions	**8**	10	10
Settlement (gain)	**(92)**	(46)	-
Benefits paid (by fund and Group)	**(95)**	(90)	(85)
Defined benefit obligation at 31 December	**2,960**	2,894	2,652
Fair value of plan assets at 1 January	**2,791**	2,691	2,359
Income statement:			
Interest income on plan assets	**118**	128	130
Administration costs	**(2)**	(3)	(3)
Other comprehensive income:			
Remeasurement (loss)/gain	**23**	(11)	195
Cash flows:			
Employer contributions (including benefits paid and reimbursed)	**94**	99	85
Members' contributions	**8**	10	10
Edinburgh/Stansted commutation payment[2,3]	**35**	13	-
Bulk transferred assets on settlement	**(105)**	(46)	-
Benefits paid (by fund and Group)	**(95)**	(90)	(85)
Fair value of plan assets at 31 December	**2,867**	2,791	2,691
Net defined benefit pension (deficit)/surplus at 31 December	**(93)**	(103)	39

[1] In 2011, the trustees of the Scheme announced to members that benefit increases for certain members, primarily deferred benefits during deferment, would in future increase in line with CPI rather than RPI inflation. This followed the government's announcement in July 2010 of a change to statutory minimum pension increases. The reduction in benefit obligation of £26 million was recorded as a negative past service cost and included in exceptional items.

[2] The disposal of Edinburgh airport took place on 31 May 2012, with assets and liabilities in respect of active members being transferred, resulting in a nil net gain. A commutation payment of £13 million was paid in December 2012.

3 The disposal of Stansted airport took place on 28 February 2013 producing a net gain on bulk transfer of £12 million. A commutation payment of £35 million was paid in late 2013.

The actual return on plan assets was £143 million (2012: £117 million; 2011: £325 million).

Experience losses of £2 million (2012: gain of £3 million; 2011: loss of £71 million) arose primarily due to updating the Scheme membership data underlying the calculation.

The actuarial loss of £86 million (2012: £186 million loss; 2011: £94 million loss) arising from changes in assumptions in the year ended 31 December 2013 resulted from a reduction in the net discount rate of 0.25%.

20 Retirement benefit obligations *continued*
(a) BAA Pension Scheme *continued*
Analysis of fair value of plan assets

	31 December 2013 £m	31 December 2012 £m	31 December 2011 £m
Fair value of plan assets			
Equities	**724**	534	515
Bonds	**1,155**	1,245	1,030
Other[1,2,3]	**988**	1,012	1,146
Total fair value of plan assets	**2,867**	2,791	2,691

1 Other includes £102 million of property assets and £886 million of cash, macro oriented and hedging mandate instruments as at 31 December 2013.
2 Other mainly includes £198 million of investment managed by hedge funds and £729 million of interest rate and inflation hedging instruments as at 31 December 2012.
3 Other assets includes £192 million of hedge funds and £707 million of interest rate and inflation instruments as at 31 December 2011.

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

Analysis of financial assumptions
The financial assumptions used to calculate Scheme assets and liabilities under IAS 19R as at 31 December 2013, 2012 and 2011 are:

	31 December 2013 %	31 December 2012 %	31 December 2011 %
Rate of increase in pensionable salaries	**4.9**	4.5	4.6
Increase to deferred benefits during deferment	**2.4**	2.3	2.4
Increase to pensions in payment:			
Open section	**3.3**	2.9	3.0
Closed section	**3.4**	3.0	3.1
Discount rate	**4.6**	4.4	4.8
Inflation assumption	**3.4**	3.0	3.1

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 26.7 years (2012: 26.7 years; 2011: 26.7 years) and 28.2 years (2012: 28.3 years; 2011: 28.2 years) from age 60 for a 40 year old male non-pensioner.

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

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

As required under IAS 19 Revised, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

At 31 December 2013, the largest single category of investment is an interest rate and inflation hedging mandate, with a value of £709 million (25% of the asset holding at 31 December 2013). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk.

The Scheme’s target asset allocation is 30:70 growth assets to matching assets for 2013, 2012 and 2011.

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

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

	(Decrease)/increase in defined benefit obligation £m	
	Before tax	**After tax**
Discount rate		
+0.50% discount rate	(251)	(201)
-0.50% discount rate	287	230
Inflation rate		
+0.50% inflation rate	258	206
-0.50% inflation rate	(226)	(181)
Salary increase		
+0.50% salary increase	52	41
-0.50% salary increase	(49)	(39)
Mortality		
Increase in life expectancy by one year	85	68

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

(b) Other pension and post-retirement liabilities
The Group operates a defined contribution scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £8 million (2012: £6 million; 2011: £5 million).

The Group also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the scheme rules. The provision for unfunded pension obligations of £22 million (2012: £24 million; 2011: £23 million) is included in the statement of financial position. In addition the Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £6 million (2012: £6 million; 2011: £6 million) is also included in the statement of financial position. The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

Notes to the Group financial statements *continued*

21 Share-based payments

Until 2009 the Group operated an Executive Share Option Plan ('ESOP') to provide awards of options over Ferrovial S.A. (Ferrovial S.A. is a shareholder of the Company) shares for full time directors and other senior employees. This plan was closed in 2009 and replaced by a cash settled bonus scheme.

Options were granted with a fixed exercise price equal to the market price of the shares at the date of grant. The exercise period for each of the issues commenced three years from the option grant date and lasts for three years. The table below shows the movements in options:

Date of grant	Options at 1 January 2013	Expired/forfeited	Exercised	Options at 31 December 2013	Grant price exercise price (€)
July 2007	293,991	(293,991)	-	-	18.09
November 2007	55,560	(12,175)	(43,385)	-	15.29
July 2008	761,275	(33,085)	(308,390)	419,800	10.83
November 2008	44,160	-	(30,069)	14,091	6.02

22 Provisions

	Disposal of operations £m	Reorganisation £m	Other £m	Total £m
Non-current	-	-	5	5
Current	6	2	1	9
31 December 2012	**6**	**2**	**6**	**14**
Utilised	**(6)**	**(4)**	**(2)**	**(12)**
Charged to income statement	**8**	**25**	**1**	**34**
Released to income statement	**-**	**(1)**	**(1)**	**(2)**
Transfer in	**-**	**-**	**12**	**12**
Unwinding of discount	**-**	**-**	**1**	**1**
31 December 2013	**8**	**22**	**17**	**47**
Non-current	-	-	13	**13**
Current	8	22	4	**34**
31 December 2013	**8**	**22**	**17**	**47**

Disposal of operations

Provisions are held for costs associated with the Group's disposals of Stansted, Edinburgh and Naples airports. Stansted airport was sold in February 2013. All amounts are expected to be utilised in 2014.

Reorganisation costs

These are costs associated with the Group's change programmes. The charge related to severance and pension payments associated with a restructuring programme being carried out during 2014.

Other

These provisions relate in part to onerous contracts, primarily for property leases, which are amounts expected to be utilised within two years.

23 Trade and other payables

	31 December 2013 £m	31 December 2012 £m
Non-current		
Other payables	**6**	7
	6	7
Current		
Deferred income	**30**	35
Trade payables	**187**	180
Other tax and social security	**11**	9
Other payables	**48**	67
Capital payables	**312**	264
	588	555

Trade payables are non-interest bearing and are generally on 30-day terms.

24 Assets held-for-sale

	31 December 2013 £m	31 December 2012 £m
Property, plant and equipment	-	698
Investment properties	-	577
Intangible assets	-	257
Inventories	-	2
Cash and cash equivalents	-	26
Trade and other receivables	-	33
Assets classified as held-for-sale	-	1,593
Deferred income tax liabilities	-	(224)
Trade and other payables	-	(29)
Liabilities classified as held-for-sale	-	(253)
Net assets of disposal group	-	1,340

On 20 August 2012 the Group announced plans to sell Stansted Airport Limited. The disposal process led to the announcement in 2013 that the airport was being sold to Manchester Airports Group for £1,500 million. This transaction was completed on 28 February 2013. The net assets of Stansted airport were classified as held-for-sale at 31 December 2012. The results and performance of discontinued operations have been disclosed in Note 6.

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

At 31 December 2012, trade receivables in Stansted airport of £16 million were fully performing. A further £11 million were past due, up to 3 months, but not impaired and expected to be fully recovered.

25 Share capital

	Number of shares	**Nominal value £**
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2012, 31 December 2012 and 31 December 2013	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2012, 31 December 2012 and 31 December 2013	42,998,461,934	2,665,904,640

Notes to the Group financial statements *continued*

26 Fair value and other reserves

	Cash flow hedge reserve £m	Available-for-sale reserve £m	Currency translation reserve £m	Total £m
1 January 2012	(493)	10	13	(470)
Fair value losses	(392)	-	-	(392)
Transferred to income statement	398	-	-	398
Current tax on fair value gains	(1)	-	-	(1)
Change in tax rate	(14)	1	-	(13)
1 January 2013	**(502)**	**11**	**13**	**(478)**
Fair value gains/(losses)	**227**	**(1)**	**-**	**226**
Transferred to income statement	**7**	**-**	**-**	**7**
Deferred tax on fair value gains	**(46)**	**-**	**-**	**(46)**
Change in tax rate	**(20)**	**-**	**-**	**(20)**
31 December 2013	**(334)**	**10**	**13**	**(311)**

27 Tax relating to components of other comprehensive income

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

	Year ended 31 December 2013			Restated[1] Year ended 31 December 2012		
	Before tax £m	**Tax (charged)/ credit £m**	**After tax £m**	Before tax £m	Tax credit /(charge) £m	After tax £m
Available-for-sale investments						
Loss taken to equity	**(1)**	**-**	**(1)**	-	-	-
Cash flow hedges						
Gain/(loss) taken to equity	**227**	**(45)**	**182**	(392)	90	(302)
Transferred to income statement	**7**	**(1)**	**6**	398	(91)	307
Actuarial (loss)/gain	**(63)**	**5**	**(58)**	(195)	42	(153)
Change in tax rate	**-**	**(33)**	**(33)**	-	(16)	(16)
Tax relating to indexation of operating land	**-**	**(1)**	**(1)**	-	-	-
Other comprehensive income	**170**	**(75)**	**95**	(189)	25	(164)
Current tax	**-**	**-**	**-**	-	(1)	
Deferred tax (Note 19)	**-**	**(75)**	**-**	-	26	
	170	**(75)**	**95**	(189)	25	(164)

1 The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

28 Retained earnings

	2013 £m	Restated[1] 2012 £m
At 1 January (restated[1])	**131**	335
Consolidated profit for the year	**709**	309
Actuarial loss on pensions	**(63)**	(195)
Tax gain on actuarial movement	**5**	42
Change in tax rate	**(13)**	(3)
Tax relating to indexation of operating land	**(1)**	-
Dividends paid	**(696)**	(357)
At 31 December	**72**	131

1 The adoption of IAS 12A has affected the measurement of deferred tax on investment properties. The adoption of IAS 19R has affected the measurement and presentation of pension-related gains and losses. Refer to the Accounting policies for further details.

29 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

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

	31 December 2013		31 December 2012	
	Land and Buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**15**	**42**	16	50
Within two to five years	**43**	**142**	50	164
After five years	**17**	**544**	23	880
	75	**728**	89	1,094

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

A significant portion of the commitments classified as ‘other’ relates to electricity supply equipment at Heathrow leased on agreement with UK Power Networks Services 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 Group nor UPNS are able to split the base fee between a ‘capital’ and ‘maintenance’ charge. The commitment has been discounted at the Group’s incremental borrowing rate.

Non-cancellable operating lease commitments – Group as a lessor

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

	31 December 2013	31 December 2012
	Land and buildings £m	Land and buildings £m
Within one year	**95**	106
Within two to five years	**320**	278
After five years	**1,608**	1,651
	2,023	2,035

The Group uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months’ notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Concession contracts on the public car parks have largely been replaced by operator management fee arrangements across the Group’s airports.

Non-cancellable electricity purchase commitment

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

Notes to the Group financial statements *continued*

29 Commitments and contingent liabilities *continued*
Group commitments for property, plant and equipment

	31 December 2013 £m	Restated[1] 31 December 2012 £m
Contracted for, but not accrued:		
Terminal 2 - Heathrow	**57**	625
Western Baggage product - Heathrow	**42**	52
Terminal restoration and modernisation - Heathrow	**37**	29
Capacity optimisation - Heathrow	**33**	20
IT projects - Heathrow	**15**	15
Non Heathrow developments and projects	**4**	-
	188	741
Other projects	**26**	57
	214	798

1 The balances as at 31 December 2012 have been restated to be consistent with current year disclosure.

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. The Group has in place long-term capital expenditure programmes at its airports. Heathrow has a capital investment programme of up to £2.8 billion (in 2011/12 prices) in respect of its next regulatory period which starts on 1 April 2014 and ends on 31 December 2018. Capital expenditure at Heathrow in the year ending 31 December 2014 is expected to be over £742 million. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project.

Other commitments
The Group 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.

Glasgow airport launched 2 blight schemes in 2005 to support the housing market and small businesses in areas potentially impacted by future runway development. Purchase obligations under this scheme will only arise once the Group announces its intention to pursue a planning application for a new runway which is considered unlikely to occur in the short-term.

In June 2006, the government concluded a night flights regime at the Group's airports 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 the Group's airports operate a voluntary scheme to mitigate the impact of aircraft noise. Heathrow has indicated that it will continue to offer a range of insulation schemes for both homes and community buildings that meet certain criteria. The Group is unable to quantify the future costs of this scheme as the take-up and the extent of any future work cannot be reliably measured. Costs under the scheme are recognised as incurred.

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

Notes to the Group financial statements *continued*

29 Commitments and contingent liabilities *continued*

Contingent liabilities

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £10 million at 31 December 2013 (2012: £52 million).

30 Note to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from continuing operations

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Operating activities			
Profit before tax		**324**	105
Adjustments for:			
Fair value loss/(gain) on financial instruments	*4b*	**69**	(67)
Finance costs	*4a*	**867**	982
Finance income	*4a*	**(233)**	(268)
Exceptional impairment charge	*3*	**-**	5
Fair value gains on investment properties		**(77)**	(49)
Depreciation	*2*	**465**	498
Amortisation	*2*	**26**	20
Profit on disposal of fixed assets		**-**	(1)
Increase in trade and other receivables		**(2)**	(32)
Increase in inventories		**(2)**	(1)
Increase/(decrease) in trade and other payables		**6**	(9)
Increase/(decrease) in provisions		**18**	(10)
Difference between pension charge and cash contributions		**(31)**	(29)
Cash generated from continuing operations		**1,430**	1,144

31 Related party transactions

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

	Sales to related party		**Purchases from related party**		**Amounts owed by related party**		**Amounts owed to related party**		**Management recharges**	
Related party	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Amey Airport Services Limited	**-**	-	**2**	2	**-**	-	**-**	-	**-**	-
Amey Community Limited	**-**	-	**22**	31	**-**	-	**-**	1	**-**	-
Ferrovial	**-**	-	**7**	6	**-**	-	**-**	-	**-**	-
Ferrovial Agroman	**-**	-	**65**	93	**-**	-	**-**	-	**-**	-
Harrods International Ltd	**20**	-	**-**	-	**-**	-	**-**	-	**-**	-
HETCo	**-**	-	**333**	257	**-**	-	**27**	29	**-**	-
Qatar Airways	**21**	-	**-**	-	**1**	-	**-**	-	**-**	-
ADI Finance 2 Limited	**-**	-	**-**	-	**93**	93	**196**	185		
	41	-	**429**	389	**94**	93	**223**	215	**-**	-

The related parties above are related through ownership by the same parties. Related party transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arms-length basis. Security granted by the Group over its assets has been disclosed in Note 16.

Notes to the Group financial statements *continued*

32 Parent undertaking and controlling party

The immediate parent undertaking of the Group is ADI Finance 2 Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (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 is the parent undertaking of the smallest group to consolidate these financial statements.

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

33 Principal subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Holding and other companies

Non Des Topco Limited
Heathrow Finance plc[1]
Heathrow (SP) Limited[1]
Heathrow Funding Limited[1,2]
LHR Airports Limited[1]
Airport Holdings NDH1 Limited[1]

Airport owners and operators

Heathrow Airport Limited[1]
Stansted Airport Limited[1]
Glasgow Airport Limited[1,3]
Aberdeen International Airport Limited[1,3]
Southampton International Airport Limited[1]

[1] Held by a subsidiary undertaking
[2] Incorporated in Jersey
[3] Registered in Scotland

Unless otherwise indicated, all subsidiaries are wholly owned, incorporated in Great Britain and registered in England and Wales. A complete list of subsidiaries will be annexed to the next annual return delivered to the Registrar of Companies.

34 Subsequent 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 and this will take effect from 1 April 2014, when the previous regulatory settlement will end. Heathrow and other parties with a qualifying interest have until 27 March 2014 to seek permission to appeal the decision on the price controls.

A dividend of £67 million was declared on 20 February 2014.

Heathrow Airport Holdings Limited

Contents

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

We have audited the parent company financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013 which comprise the Company balance sheet, the Accounting policies and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

Opinion on financial statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the 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 and Directors' reports for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matter
We have reported separately on the group financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013.

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

20 February 2014

Heathrow Airport Holdings Limited

Company balance sheet

	Notes	31 December 2013 £m	31 December 2012 £m
Fixed assets			
Investments in subsidiaries	2	**4,444**	4,436
		4,444	4,436
Current assets			
Debtors : due within one year	3	**50**	56
: due after more than one year	3	**564**	567
Cash at bank and in hand		**1**	1
Total current assets		**615**	624
Creditors: amounts falling due within one year	4	**(2)**	(3)
Net current assets		**613**	621
Total assets less current liabilities		**5,057**	5,057
Creditors: amounts falling due after more than one year	5	**(165)**	(185)
Net assets		**4,892**	4,872
Capital and reserves			
Called up share capital	6	**2,666**	2,666
Profit and loss reserve	7	**2,226**	2,206
Total shareholder's funds		**4,892**	4,872

The financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 20 February 2014. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

Accounting policies

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

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with applicable Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')). The financial statements present information about the Company as an individual entity only and not as a group.

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.

Investment in subsidiaries

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

Debtors

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

Cash

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

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.

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 tax 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 shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Dividend distribution

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

Accounting policies *continued*

Cash flow statement and related party disclosures

FGP Topco Limited is the ultimate parent entity of the Group registered in England and Wales. The results and cash flows of the Company are included in the publicly available financial statements of the Group. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'.

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

Notes to the Company financial statements

1 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £716 million (2012: £393 million).

2 Investments in subsidiaries

	£m
1 January 2013	**4,436**
Additions	**8**
31 December 2013	**4,444**

Details of principal subsidiary undertakings of the Group are provided in Note 33 of the Heathrow Airport Holdings Limited consolidated financial statements.

3 Debtors

	31 December 2013 £m	31 December 2012 £m
Due within one year		
Amount owed by group undertakings – interest free	**29**	29
Amount owed by group undertakings – interest bearing[1]	**8**	9
Interest owed by group undertakings	**13**	13
Other debtors	**-**	5
	50	56
Due after more than one year		
Amounts owed by parent undertaking[2]	**93**	93
Amounts owed by group undertakings[3]	**370**	352
Amounts owed by group undertakings – interest free	**-**	-
Deferred tax asset	**101**	122
	564	567
Total debtors	**614**	623

1 Represents a loan advanced to LHR Airports Limited and attracts a rate of interest of 0.80%.
2 Amounts owed by parent undertaking represent a loan to ADI Finance 2 Limited and is on an interest free basis.
3 Amounts owed by group undertakings represent loans advanced to the Company's subsidiaries, Non Des Topco Limited of £344 million (2012: £328 million) and Heathrow Holdco Limited of £26 million (2012: £24 million). The loans attract a fixed rate of interest of 9.02%.

Deferred tax asset

Provision has been made for deferred tax in accordance with FRS 19. The amount provided in the accounts is detailed below:

	31 December 2013 £m	31 December 2012 £m
Surplus non trade deficit	**101**	122

4 Creditors: amounts falling due within one year

	31 December 2013 £m	31 December 2012 £m
Other creditors	**2**	3

5 Creditors: amounts falling due after more than one year

	31 December 2013 £m	31 December 2012 £m
Loan from parent undertaking	**165**	185

Loan from parent undertaking represents amount lent by ADI Finance 2 Limited to the Company on an interest free basis.

Notes to the Company financial statements *continued*

6 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2013 and 31 December 2013	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2013 and 31 December 2013	42,998,461,934	2,665,904,640

7 Profit and loss reserve

	£m
1 January 2013	**2,206**
Profit for the financial year	**716**
Dividends paid	**(696)**
31 December 2013	**2,226**

8 Dividends paid

During 2013, the Company made quarterly dividend payments to its ultimate shareholders totalling £255 million (2012: £240 million). A further £300 million return was made to the Company's ultimate shareholders on their historic investment in Stansted airport following its disposal. The remaining £141 million of the total £696 million (2012: £357 million) in dividends paid in 2013 related to servicing of external debt at the Company's immediate holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries.

9 Auditor's remuneration

Audit fees are recharged in accordance with the group Shared Services Agreement ('SSA') into the operating entities. The Company is not an operating entity and is therefore not party to the SSA and receives no recharge of the audit cost. However, the Company's auditor received £21,000 (2012: £21,000) as remuneration for the audit of the Company's financial statements, the cost of which was borne by LHR Airports Limited.

10 Employee information and directors' remuneration

Employee numbers

The Company had no employees (2012: none).

Directors' remuneration

None of the directors (2012: none) who served during the year ended 31 December 2013 received any emoluments from the Company.

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

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

Details of directors' remuneration for the year are provided in Note 2 of the Group financial statements.

11 Related party transactions

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.

Notes to the Company financial statements *continued*

12 Ultimate parent undertaking and controlling party
The immediate parent undertaking of the Company is ADI Finance 2 Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (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 is the parent undertaking of the smallest group to consolidate these financial statements.

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

13 Post balance sheet events
A dividend of £67 million was declared on 20 February 2014.

Registered office
Heathrow Airport Holdings Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England Number: 05757208