Heathrow (SP) Limited

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

Company registration number: 06458621

Heathrow (SP) Limited

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Strategic report

Heathrow (SP) Limited (the 'Company') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service between Heathrow and Paddington, London. Heathrow (SP) Limited is an indirect subsidiary of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group').

On 28 February 2013 the Group sold Stansted airport to Manchester Airports Group for a cash consideration of £1.5 billion.

The consolidated financial statements of Heathrow (SP) Limited and its subsidiaries (together 'Heathrow (SP)' or the 'Group') have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). 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

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, Heathrow became the full focus of the business 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.

Management review *continued*

Key features of the year continued

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

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

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

Passenger traffic

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

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

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

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

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

Note: Since the start of 2013, Heathrow has changed the reporting of traffic statistics by geographic segment to make it consistent with international practise.

Transforming the Group's airport

Enhancing Heathrow's facilities

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

Management review *continued*

Transforming the Group's airport continued

Enhancing Heathrow's facilities continued

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 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 Airports Council International ('ACI'), 75% of Heathrow passengers surveyed rated their experience as 'Excellent' or 'Very Good', beating the previous annual high of 73% in 2012. In addition, Heathrow achieved its highest 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, further additional security officers are being recruited and additional security lanes are being introduced during 2014.

Regulatory and governmental developments

Heathrow's development for the next 5 years

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.

Management review *continued*

Regulatory and governmental developments continued

Heathrow's development for the next 5 years

On 13 February 2014, the CAA formally granted Heathrow's licence to charge fees for the provision of airport services 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 to the north west of the airport; 2) a separate proposal by Heathrow Hub Limited to lengthen Heathrow's existing northern runway to 6,000 metres; and 3) a new runway at Gatwick Airport south of the existing runway. In addition, the Commission recommended short-term actions to improve the use of existing runway capacity in the next 5 years.

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

Outlook

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

Traffic momentum in early 2014 has remained strong and the incremental change to the tariff formula for the regulatory period beginning 1 April 2014, recently announced by the CAA, does not materially impact previously published 2014 forecasts.

Therefore at this early stage in the year, other than Terminal 2 operational readiness costs now being classified as exceptional items, the outlook for 2014 remains consistent with the guidance set out in the December 2013 Investor Report.

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
Heathrow (SP) Limited is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service. The Group's statutory accounts are prepared under UK GAAP including the adoption of merger accounting.

Basis of presentation of financial results
In order to provide a more meaningful comparison of performance between 2012 and 2013, the review focuses on the Group's continuing operations by excluding Stansted from current and prior year operating financial information.

From 1 January 2013, the reporting of certain intra-group services has changed, impacting both reported turnover and costs. Prior to this date, the Group incurred the costs of providing certain services to the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group'). The related intra-group transactions were separately recorded by the Group firstly as Other Income for charges made by it to LHR Airports Limited ('LHR Airports'), the Heathrow Airport Holdings Group's shared services provider, and secondly as Intra-group charges made by LHR Airports for the part of the charges attributable to the Group's airports, including Heathrow. From 1 January 2013, only services provided to non-Heathrow airports are charged out, with the corresponding settlement reported in Other Income. Consequently the 2013 amounts for Other Income and General Expenses are not directly comparable with 2012 amounts.

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

The profit and loss account below provides more detailed disclosure than the statutory format on page 23 in order to enable a better understanding of the results of Heathrow's operations.

Summary performance

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Group turnover - total	**2,506**	2,464
Group turnover - discontinued operations	**(32)**	(242)
Group turnover - continuing operations	**2,474**	2,222
Adjusted operating costs - continuing operations[2]	**(1,053)**	(1,068)
Adjusted EBITDA - continuing operations[3]	**1,421**	1,154
Operating costs – exceptional: other – continuing operations	**(38)**	-
Operating costs – exceptional: pensions – continuing operations	**(76)**	(152)
EBITDA – continuing operations	**1,307**	1,002
Depreciation – ordinary - continuing operations	**(448)**	(470)
Operating profit - continuing operations	**859**	532
Operating profit - discontinued operations	**-**	23
Operating profit - total	**859**	555
Impairment of fixed assets – exceptional	**-**	(5)
Gain/(loss) on disposal of Stansted	**292**	(4)
Net interest payable and similar charges	**(644)**	(691)
Fair value (loss)/gain on financial instruments	**(81)**	112
Net interest payable and similar charges	**(725)**	(579)
Profit/(loss) on ordinary activities before taxation	**426**	(33)
Tax charge on profit/(loss) on ordinary activities	**(37)**	(8)
Profit/(loss) on ordinary activities after taxation	**389**	(41)

[1] Restated, see note on Changes in accounting policies.
[2] Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
[3] Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

Financial review *continued*

Turnover
In the year ended 31 December 2013, Heathrow's turnover increased 11.3% to £2,474 million (2012: £2,222 million).

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %
Aeronautical income	**1,523**	1,280	19.0
Retail income	**487**	460	5.9
Other income	**464**	482	(3.7)
Total turnover	**2,474**	2,222	11.3

Aeronautical income
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.

Retail income
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).

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m	Change %
Car parking	**91**	82	11.0
Duty and tax-free	**126**	122	3.3
Airside specialist shops	**96**	92	4.3
Bureaux de change	**45**	44	2.3
Catering	**39**	38	2.6
Other retail income	**90**	82	9.8
Gross retail income	**487**	460	5.9
Retail expenditure	**(26)**	(26)	-
Net retail income	**461**	434	6.2

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

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

Other income
Increases in rail income, property rental and operational facilities and utilities income totalled £11 million. These increases were offset by a reduction of £29 million in other income which primarily related to a change in the way in which the recharge of intra-group services is recorded.

Financial review *continued*

Adjusted operating costs
Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the year ended 31 December 2013, adjusted operating costs reduced by 1.4% to £1,053 million (2012: £1,068 million).

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m	Change %
Employment costs	**392**	381	2.9
Maintenance expenditure	**164**	154	6.5
Utility costs	**85**	87	(2.3)
Rents and rates	**116**	124	(6.5)
General expenses	**270**	296	(8.8)
Retail expenditure	**26**	26	-
Total	**1,053**	1,068	(1.4)

[1] Restated, see note on Changes in accounting policies.

The main drivers of change in adjusted operating costs were higher employment costs and maintenance expenses, mainly offset by lower reported general expenses. On a comparable basis between 2013 and 2012, stripping out the one-off Olympic Games costs and aligning the basis of general expenses, underlying operating costs increased by approximately 3%.

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 £10 million in maintenance costs in part reflects to 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.

General expenses were broadly flat on an underlying basis after removing the Olympic costs from 2012 and taking account of the change in the recharge of intra-group services following the disposal of Stansted Airport. In 2013, extra costs were incurred in ensuring operations were maintained during adverse weather in January.

Other cost benefits were achieved when annual inflation-linked rises in property rates were offset by one-off credits awarded from recent rates valuation assessments.

Adjusted EBITDA
In the year ended 31 December 2013, Adjusted EBITDA increased 23.1% to £1,421 million (restated 2012: £1,154 million), resulting in an Adjusted EBITDA margin of 57% (restated 2012: 52%).

The increase in Adjusted EBITDA from 2012 principally reflects the increase in aeronautical income through passenger traffic growth and increases in headline tariffs.

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 will drive a higher Adjusted EBITDA in 2013 and 2014 than previously published whilst the impact is cash flow neutral.

Financial review *continued*

Operating profit
The Group recorded an operating profit for the year ended 31 December 2013 of £859 million (restated 2012: £532 million). Reconciliation of Adjusted EBITDA and statutory operating result is provided below.

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m	Change %
Adjusted EBITDA	**1,421**	1,154	23.1
Depreciation	**(448)**	(470)	(4.7)
Exceptional items	**(114)**	(152)	(25.0)
Operating profit	**859**	532	61.5

[1] Restated, see note on Changes in accounting policies.

Exceptional items
In the year ended 31 December 2013, there was a net exceptional pre-tax charge of £114 million (2012: £152 million) to the profit and loss account. The exceptional charge relates to the pension scheme charges, restructure charges and preparation costs for the opening of Terminal 2.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Restructure	**(22)**	-
Terminal 2 operational readiness	**(16)**	-
Pension	**(76)**	(152)
Exceptional pre-tax charge	**(114)**	(152)

Exceptional items: pensions
A non-cash pension charge of £76 million (2012: £152 million) arose principally from Heathrow's share of the increase in liabilities under the LHR Airports Limited defined benefit pension scheme since 31 December 2012, driven by movements in actuarial assumptions.

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

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

Gain on disposal of Stansted
In the year ended 31 December 2013, a gain on disposal of Stansted of £292 million was recognised. During 2012, £4 million of disposal costs relating to the disposal of Stansted were incurred.

Net interest payable and similar charges
Net interest payable and similar charges are discussed together with net interest paid under 'Net interest payable and net interest paid'.

Taxation
The tax charge for the year ended 31 December 2013 results in an effective tax rate of 8.7%. This reflects the tax charge arising on ordinary activities of £65 million together with a tax credit of £28 million due to the impact on the deferred tax liabilities of the reductions in the main rate of UK corporation tax.

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result the Group's deferred tax balances which were previously provided for at 23% have been re-measured at the rate of 20%. This has resulted in a reduction in the net deferred tax liability of £10 million with £28 million credited to the profit and loss account and £18 million charged to reserves.

The Group's disposal of Stansted Airport Limited has no associated tax charge as it qualifies for the Substantial Shareholding Exemption.

Summary cash flow

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Net cash inflow from operating activities – continuing	**1,403**	1,080
Net cash inflow from operating activities – discontinued	**5**	84
Net cash inflow from operating activities - total	**1,408**	1,164
Net interest paid	**(521)**	(428)
Taxation – group relief paid	**(28)**	(28)
Cash flow after interest and tax	**859**	708
Net capital expenditure	**(1,285)**	(1,157)
Disposal of Stansted airport	**1,410**	(6)
Dividends paid	**(661)**	(436)
Net cash inflow/(outflow) before use of liquid resources and financing	**323**	(891)
Management of liquid resources	**(43)**	(12)
Cancellation and restructuring of derivatives	**(2)**	(76)
Settlement of accretion on index-linked swaps	**(177)**	(80)
Increase in amount owed to Heathrow Finance plc	**4**	270
Movement in borrowings and other financing flows	**(92)**	782
Increase/(decrease) in cash	**13**	(7)

Cash flow from operating activities
Net cash inflow from continuing operations in the year ended 31 December 2013 increased 29.9% to £1,403 million (2012: £1,080 million) which compares with Adjusted EBITDA of £1,421 million (2012: £1,154 million). The operating cash flow was £18 million lower than Adjusted EBITDA principally as a result of pension cash contributions being higher than pension service charges and a cash outflow relating to exceptional Terminal 2 operational readiness costs, partially offset by an increase in amounts due to LHR Airports Limited.

Capital expenditure
In the year ended 31 December 2013, the cash flow impact of capital investment was £1,285 million, of which £1,283 million related to Heathrow (2012: £1,157 million, including £1,141 million at Heathrow).

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.

Restricted payments/dividends
In the year ended 31 December 2013, restricted payments of £716 million (2012: £485 million) were made out of the Group.

The Group's ultimate shareholders received £255 million in quarterly dividends (2012: £240 million). A further £300 million return was made to shareholders on their historic investment in Stansted airport following its disposal. These dividends were funded by restricted payments from the Group, except for £51 million which was funded from cash resources outside the Group.

A further £212 million in restricted payments were made relating to servicing of debt elsewhere in the FGP Topco Limited group ('FGP Topco Group') and rebalancing of debt at different levels of the FGP Topco Group's capital structure. This included funding £43 million in external interest payments on Heathrow Finance's external debt, funded by £55 million (2012: £49 million) in interest payments on the debenture between Heathrow (SP) and Heathrow Finance plc ('Heathrow Finance').

The remaining £169 million in restricted payments was utilised, together with £35 million in incremental debt raised at Heathrow Finance in the year, principally in the servicing or refinancing of debt held at ADI Finance 1 Limited ('ADIF1') and ADI Finance 2 Limited ('ADIF2'). This included £95 million used to repay part of the £600 million ADIF1 facility, which was replaced by facilities of £505 million at ADIF2 in July 2013.

Pension scheme
At 31 December 2013, the LHR Airports Limited defined benefit pension scheme had a deficit of £93 million (2012: £103 million) as measured under FRS 17, of which £81 million (2012: £92 million) was attributable to the Group under the Group's shared services agreement with LHR Airports Limited. The decrease in the Group's share of the deficit is mainly due cash contributions and the commutation payment related to the sale of Stansted airport, offset by an increase in the assumed inflation rate applied to future scheme liabilities.

Financial review *continued*

Pension scheme *continued*
The trustees of the LHR Airports Limited defined benefit pension scheme and the Group concluded the pension scheme's 30 September 2010 triennial valuation in December 2011 and agreed a schedule of cash contributions of £97 million per annum (of which £24 million relates to the deficit reduction) that became effective from 1 January 2012. Following the disposal of Edinburgh airport, the schedule of cash contributions was reduced to £94 million per annum from January 2013 with a further reduction to £87 million per annum from January 2014 following the sale of Stansted airport. Approximately £77 million in cash contributions will be met by Heathrow in 2014.

Net debt and liquidity
The analysis below focuses on the Group's external debt and excludes restricted cash and the debenture between Heathrow (SP) and its parent company, Heathrow Finance. It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

During 2013, the Group's nominal net debt decreased 0.8% to £11,264 million at 31 December 2013 from £11,360 million at 31 December 2012. The lower net debt reflects debt repayment from the proceeds of the sale of Stansted airport together with 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 and restricted payments made out of the Group.

The Group's nominal net debt at 31 December 2013 comprised £10,614 million under bond issues, £80 million under the Group's revolving credit facilities, £215 million under other loan facilities, £448 million in index-linked derivative accretion and cash at bank and term deposits of £93 million. Nominal net debt comprised £9,864 million in senior net debt and £1,400 million in junior debt.

The accounting value (which includes £94 million balance sheet cash and current asset investments) of the Group's net debt at 31 December 2013 was £10,712 million (2012: £10,852 million).

The average cost of the Group's external gross debt at 31 December 2013 was 4.53% (2012: 4.24%), 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 6.01% (2012: 5.83%). 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 £2.2 billion in undrawn loan 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 early 2016.

Recent financing activity
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 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.

This financing activity has enabled the Group to increase the average life of its external debt from 10.1 years at 31 December 2012 to 11.4 years at 31 December 2013 with the amount of debt falling due within 3 years being £2.1 billion compared to £1.8 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.

Financial review *continued*

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 the Group's gearing at that date, was £1,343 million. RAB figures are utilised in calculating gearing ratios under the Group's 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 interest payable and net interest paid
In the year ended 31 December 2013, the Group's net interest payable was £725 million (2012: £579 million) and net interest paid was £521 million (2012: £428 million). A reconciliation from interest payable on the profit and loss account to interest paid on the cash flow statement is provided below.

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Net interest payable and similar charges	**(725)**	(579)
Fair value loss/(gain) on financial instruments	**81**	(112)
Amortisation of financing fees, discounts and fair value adjustments	**39**	45
Interest capitalised	**(164)**	(100)
Underlying net interest payable	**(769)**	(746)
Non-cash accretion of index-linked instruments	**202**	191
Other movements	**46**	127
Net interest paid	**(521)**	(428)

1 Restated, see note on Changes in accounting policies.

Underlying net interest payable was £769 million (2012: £746 million) after adjusting for the fair value loss on financial instruments of £81 million (2012: £112 million gain); capitalised interest of £164 million (2012: £100 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £39 million (2012: £45 million).

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.

Net interest paid in the period was £521 million (2012: £428 million) of which £466 million (2012: £379 million) was paid in relation to external debt. The increase in net interest paid on external debt partly reflects the first time payment of coupons on bond issues completed in 2012. In addition, the shift from floating rate loans to fixed rate bonds contributed to this increase. The remaining £55 million (2012: £49 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

The difference between underlying net interest payable and net interest paid is primarily accounted for by non-cash accretion on index-linked instruments of £202 million (2012: £191 million).

Financial ratios
The Group continues to operate comfortably within required financial ratios.

At 31 December 2013, the 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.

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.

Financial review *continued*

Financial ratios *continued*

In the year ended 31 December 2013, the 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. In 2012 and 2013 there were exceptional cash costs of £4 million and £16 million respectively.

Accounting and reporting policies and procedures

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments, in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')). 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 control and risk management are centrally managed at the Heathrow Airport Holdings Limited level (the 'Heathrow Airport Holdings 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.

Internal controls

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

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

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

In addition, the AC:

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

Risk management

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 Heathrow Airport Holdings 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 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 procedures 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.

Internal controls and risk management *continued*

Risk management *continued*
Commercial and financial risks
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.

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 presents 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 Heathrow Airport Holdings Group's business operations and funding. To achieve this, the Heathrow Airport Holdings Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate, inflation and currency risks.

The primary treasury-related financial risks faced by the 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 96% 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 use of index-linked instruments.

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

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

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

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

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

On behalf of the Board

José Leo
Director

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 Heathrow (SP) Limited is as the holding company of Heathrow (AH) Limited, and the owner of Heathrow airport and Heathrow Funding Limited, the bond issuer of the Group.

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are contained in the Strategic report on pages 2 to 17.

Results and dividends
The profit after taxation for the financial year amounted to £389 million (2012: £41 million loss).

Dividends of £661 million were paid during the year (2012: £436 million). The Company made quarterly dividends of £204 million to fund dividends to its ultimate shareholders. A further £300 million return was made to the Company's ultimate shareholders on their historic investment in Stansted airport following its disposal. The remaining £157 million related to the servicing of external debt at the Company's holding companies and rebalancing the amount of external debt between the Company's holding companies and subsidiaries.

The statutory results for the year are set out on page 23.

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

José Leo
Andrew Efiong

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.

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

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

Supplier payment policies
The 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 17 days purchases outstanding at 31 December 2013 (2012: 7 days) based on the average daily amount invoiced by suppliers during the year.

Directors' report *continued*

Donations

The charitable donations the Group is required to disclose for the year amounted to £1,861,450 (2012: £1,242,560). The beneficiaries of charitable donations, the relevant amounts donated and the activities of these beneficiaries are as follows:

Hillingdon Communities Trust	£1,000,000	Heathrow Airport Limited made a 15 year commitment ending in 2017 to make an annual grant of £1 million to the Hillingdon Communities Trust. The deed of gift to the Trust carries a requirement that grants must benefit the community in the southern part of the Borough of Hillingdon including Hayes (the wards of Botwell, Townfield and Pinkwell, West Drayton, Yiewsley and the Heathrow Villages).
Communities Trust	£750,000	Provides support for local community projects close to Heathrow Airport Holdings' airports with a priority on funding projects linked to education, the environment and economic generation.
Whizz-Kidz	£96,450	The principal objectives of the charity are to change the lives of mobility-impaired children and young people in the UK, by providing them with the best possible mobility equipment, training and advice.
The Groundwork South Trust	£15,000	To provide conservation, protection and improvement to the natural environment as well as implement recreational solutions which enhance social welfare in the community and also provide advancement in public education of 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 and has in place a system of internal controls designed to mitigate these risks. Details of the Group's internal controls and risk management policies can be found on pages 14 to 17 in the Internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies

The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on pages 16 and 17 in the Internal controls and risk management section of the Strategic report.

Directors' indemnity

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

Auditor

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

Directors' report *continued*

Statement of disclosure of information to the Auditor

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

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

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

On behalf of the Board

José Leo
Director

20 February 2014

Company registration number: 06458621

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 and 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 these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 Heathrow website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

José Leo
Director

20 February 2014

Independent auditor's report to the members of Heathrow (SP) Limited

We have audited the financial statements of Heathrow (SP) Limited for the year ended 31 December 2013 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, the Consolidated reconciliation of movements in shareholder's deficit, the Consolidated balance sheet, the Consolidated cash flow statement, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 misstatement or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Heathrow (SP) 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 (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Turnover – continuing operations		**2,474**	2,222
Turnover – discontinued operations		**32**	242
Total turnover	*1*	**2,506**	2,464
Operating costs – ordinary: continuing operations		**(1,501)**	(1,538)
Operating costs – ordinary: discontinued operations		**(32)**	(188)
Total operating costs - ordinary	*2*	**(1,533)**	(1,726)
Operating costs – exceptional: other continuing operations		**(38)**	-
Operating costs – exceptional: pensions continuing operations		**(76)**	(152)
Operating costs – exceptional: pensions discontinued operations		**-**	(31)
Total operating costs – exceptional	*3*	**(114)**	(183)
Total operating costs		**(1,647)**	(1,909)
Operating profit – continuing operations		**859**	532
Operating profit – discontinued operations		**-**	23
Total operating profit	*1*	**859**	555
Impairment of fixed assets	*3*	**-**	(5)
Gain/(loss) on disposal of Stansted	*4*	**292**	(4)
Interest receivable and similar income		**236**	266
Interest payable and similar charges		**(880)**	(957)
Fair value (loss)/gain on financial instruments		**(81)**	112
Net interest payable and similar charges	*5*	**(725)**	(579)
Profit/(loss) on ordinary activities before taxation		**426**	(33)
Tax charge on profit/(loss) on ordinary activities	*6*	**(37)**	(8)
Profit/(loss) on ordinary activities after taxation	*23*	**389**	(41)

[1] The presentation of turnover and operating profit has been restated following the completion of the disposal of Stansted airport on 28 February 2013. Comparative balances for the year ended 31 December 2012 have been restated following a change in accounting policy as explained in the accounting policies note.

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

Heathrow (SP) Limited

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

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Profit/(loss) for the financial year		**389**	(41)
Unrealised gain on revaluation of investment properties	*20*	**32**	38
Gains/(losses) on cash flow hedges taken directly to equity	*22*	**203**	(63)
Deferred tax (charge)/credit arising on cash flow hedge taken directly to equity	*22*	**(58)**	4
		177	(21)
Total recognised gains/(losses) for the year		**566**	(62)

Consolidated note of historical cost profits and losses for the year ended 31 December 2013

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Reported profit/(loss) on ordinary activities before taxation		**426**	(33)
Adjusted for:			
Realisation of revaluation reserve – Stansted disposal	*20*	**406**	-
Historical cost profit/(loss) on ordinary activities before taxation		**832**	(33)
Historical cost profit/(loss) on ordinary activities after taxation		**795**	(41)

The effects of fair value accounting for derivative financial instruments have been excluded from the reconciliation of the reported profit/(loss) on ordinary activities before taxation to the equivalent historical cost amount.

Consolidated reconciliation of movements in shareholder's (deficit)/funds for the year ended 31 December 2013

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Profit/(loss) for the financial year	*23*	**389**	(41)
Other recognised gains/(losses) relating to the year (net)		**177**	(21)
Dividends paid	*23*	**(661)**	(436)
Net movement in shareholder's funds		**(95)**	(498)
Opening shareholder's (deficit)/funds		**(257)**	241
Closing shareholder's deficit		**(352)**	(257)

Heathrow (SP) Limited

Consolidated balance sheet as at 31 December 2013

	Note	31 December 2013 £m	31 December 2012 £m
Fixed assets			
Tangible fixed assets	7	**12,830**	12,961
Financial assets – derivative financial instruments	15	**165**	306
Total fixed assets		**12,995**	13,267
Current assets			
Stocks	8	**9**	9
Debtors	9	**352**	313
Financial assets – derivative financial instruments	15	**135**	-
Current asset investments	10	**75**	32
Cash	11	**19**	6
Total current assets		**590**	360
Current liabilities			
Creditors: amounts falling due within one year	12	**(1,449)**	(1,232)
Net current liabilities		**(859)**	(872)
Total assets less current liabilities		**12,136**	12,395
Creditors: amounts falling due after more than one year	13	**(12,213)**	(12,427)
Deferred tax	16	**(148)**	(103)
Provisions for liabilities	17	**(127)**	(122)
Net liabilities		**(352)**	(257)
Capital and reserves			
Called up share capital	18	**11**	11
Share premium reserve	19	**499**	499
Revaluation reserve	20	**461**	835
Merger reserve	21	**(3,758)**	(4,536)
Fair value reserve	22	**(310)**	(455)
Profit and loss reserve	23	**2,745**	3,389
Total shareholder's deficit		**(352)**	(257)

The financial statements of Heathrow (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 20 February 2014. They were signed on its behalf by:

José Leo
Director

Andrew Efiong
Director

Heathrow (SP) Limited

Consolidated cash flow statement for the year ended 31 December 2013

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Net cash inflow from operating activities	*26*	**1,403**	1,080
Net cash inflow from discontinued activities		**5**	84
Return on investment and servicing of finance			
Net interest paid		**(521)**	(428)
Net cash outflow from returns on investments and servicing of finance		**(521)**	(428)
Taxation – group relief paid		**(28)**	(28)
Capital expenditure			
Net cash outflow for capital expenditure		**(1,285)**	(1,157)
Acquisitions and disposals			
Net proceeds from acquisitions and disposals	*4*	**1,410**	(6)
Dividends paid	*23*	**(661)**	(436)
Net cash inflow/(outflow) before use of liquid resources and financing		**323**	(891)
Management of liquid resources			
Increase in short-term deposits	*10*	**(43)**	(12)
Net cash outflow from management of liquid resources		**(43)**	(12)
Financing			
Issuance of bonds	*14*	**745**	3,082
Repayment of bonds	*14*	**(396)**	(680)
Net (repayment)/drawdown of revolving credit facilities	*14*	**(227)**	307
Net repayment of capital expenditure facility	*14*	**-**	(1,395)
Repayment of facilities and other financing items	*14*	**(214)**	(532)
Increase in amount owed to Heathrow Finance plc	*14*	**4**	270
Settlement of accretion on index-linked swaps		**(177)**	(80)
Cancellation and restructuring of derivatives		**(2)**	(76)
Net cash (outflow)/inflow from financing		**(267)**	896
Increase/(decrease) in cash	*11*	**13**	(7)
Reconciliation to net debt			
Net debt at 1 January	*26*	**(11,719)**	(10,852)
Increase/(decrease) in cash	*11*	**13**	(7)
Movement in liquid resources	*10*	**43**	12
Movement in external borrowings		**71**	(795)
Movement in inter-company borrowings		**(4)**	(270)
Fair value adjustments		**64**	217
Other non-cash changes		**(51)**	(24)
Net debt at 31 December	*26*	**(11,582)**	(11,719)

Accounting policies for the year ended 31 December 2013

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

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

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

The prior year profit and loss account has been restated to reflect this change, increasing employment cost and reducing interest cost by £16 million compared to the amounts previously reported and reducing operating profit to £555 million from £571 million. The impact on the current year has been to increase employment costs and reduce interest cost by £7 million and reduce operating profit. There has been no impact on the balance sheet or cash flows of the Group from this change.

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

Consequently the Directors have reviewed the cash flow projections of the Heathrow Airport Holdings Group taking into account:
- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Heathrow Airport Holdings Group liquidity position, including remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and its ability to access debt markets (refer to Recent financing activity in the Financial review section).

Whilst the Group is in a net liability and a net current liability position, as a result of the review, and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Group's funding requirement for the twelve months from the balance sheet signing date.

Basis of consolidation
The Group financial statements consolidate the financial statements of Heathrow (SP) Limited and all its subsidiaries.

The Group was formed in 2008 as part of a wider Heathrow Airport Holdings Group refinancing and group reconstruction. In 2008 the Company acquired Heathrow (AH) Limited, which now owns the UK regulated airport Heathrow. The Group also operates the Heathrow Express rail service between Heathrow and Paddington, London. Heathrow (SP) Limited is the holding company of Heathrow Funding Limited, which is the bond issuer for the Group.

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and consists primarily of:

Aeronautical
- 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.

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

Turnover *continued*

Property and operational facilities

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

Rail

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

Other

- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery.
- Car park revenue from third parties is recognised via concession fees based upon turnover certificates or on the performance of the service.

Exceptional items

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

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

Provisions to recognise the Group's liability to fund the LHR Airports Limited defined benefit pension scheme deficit and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities under the Shared Services Agreement are also treated as an exceptional item. Refer to the Shared Services Agreement accounting policy.

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

Interest

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

Discontinued operations

Discontinued operations consist of business segments and other non-core assets where the sale has completed during the year or before the earlier of three months after the balance sheet date and the date on which the financial statements are signed.

Tangible fixed assets

Operational assets

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

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

Investment properties

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

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

Tangible fixed assets *continued*

Investment properties continued

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

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

Capitalisation of interest

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

Depreciation

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

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Railways	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
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 period of lease

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

Tangible fixed assets *continued*

Impairment of assets

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 income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Leases

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

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.

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 profit and loss account on a straight-line basis over the lease term.

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

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 and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income.

Stocks

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

Debtors

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

Cash and current asset investments

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

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

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

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

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

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. 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 profit and loss account over the period of the borrowings using the effective interest rate 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 profit and loss account.

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.

Classification of financial instruments issued by the Group
In accordance with FRS 25 *Financial Instruments: Disclosure and Presentation*, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium reserve exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds (see Dividend distribution accounting policy), are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

The Group is exempt from reporting information under FRS 29 *Financial Instruments: Disclosures* because the consolidated financial statements of its immediate parent, Heathrow Finance plc, are prepared in accordance with IFRS 7 *Financial Instruments: Disclosures*.

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

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

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

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

Derivative financial instruments 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 flow 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.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, 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 rate method is used is amortised in the profit and loss account 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 profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account 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 profit and loss account.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the profit and loss account.

When derivatives are designated in a hedge relationship, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within net interest payable and other similar charges in the profit and loss account. The interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account.

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

Derivative financial instruments and hedging activities *continued*

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. Where material, 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 FRS 26 *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.

Shared Services Agreement ('SSA')

All employees of the Group are employed by LHR Airports Limited with the exception of non-senior management at Heathrow Express Operating Company Limited. LHR Airports Limited grants all employee benefits and sponsors the defined benefit pension schemes while Heathrow Airport Limited incurs any staff related costs.

On 18 August 2008, the airports and HEX entered into a SSA with LHR Airports Limited by which the latter became the shared services provider for the Group. 2013 saw a change in the way in which costs were incurred with Heathrow Airport Limited incurring the cost of operational staff and corporate services, these services are charged to the relevant Heathrow Airport Holdings Group airports in accordance with the SSA.

Operational staff

Heathrow Airport Limited incurs the cost for all airport staff in the Heathrow Airport Holdings Group. The charges include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of LHR Airports Limited in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to employee share options.

Corporate and centralised services

During 2013, LHR Airports Limited transferred various central services to Heathrow Airport Limited such as IT applications, general business services, procurement and financial accounting. Under the new structure the majority of costs previously incurred by LHR Airports are now borne by Heathrow Airport Limited and the element relating to airports other than Heathrow are subsequently recharged to LHR Airports Limited with a mark up of 7.5% consistent with the SSA. LHR Airports Limited then recharge the other airports without a mark up. This change in methodology is allowed internally under paragraph 22.8 of the SSA which allows Heathrow Airport Holdings Limited to sub-contract any of the operating companies to perform all or any portion of the Centralised Airport Services or Corporate Services.

Pension costs

Under the SSA the current period service cost for the LHR Airports Limited pension schemes are recharged to Heathrow Airport Limited ('HAL') and Heathrow Express Operating Company Limited ('HEX') on the basis of their pensionable salaries. This charge is included within Operating costs - ordinary. Cash contributions are made directly by HAL and HEX to the LHR Airports Limited pension schemes on behalf of LHR Airports Limited.

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

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

Current and deferred taxation

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

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

Current and deferred taxation *continued*

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

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

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

Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where 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 Group's shareholder is recognised as a liability in the Group's financial statements in the period in which the shareholder's right to receive payment of the dividend is established. Interim dividends are recognised when paid.

Foreign currency

Items included in the financial statements of 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 profit and loss account.

Related party disclosures

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Group are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2013. The results are also included in the audited consolidated financial statements of Heathrow Finance plc for the year ended 31 December 2013 (immediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2013.

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

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

In applying the 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 at a fair value at 31 December 2013 and 31 December 2012 by CBRE Limited, Chartered Surveyors. The valuations were prepared in consideration of the relevant accounting standards 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. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 81% (2012: 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.

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

Hedge accounting
Certain interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of existing liabilities and forecast transactions. This is 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, £418 million of fair value losses (2012: £582 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 profit and loss account.

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.

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

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

1 Segment information

The directors consider that following the completion of the disposal of Stansted the business has one segment 'Heathrow', Heathrow airport together with Heathrow Express. All of the Group's turnover arises in the UK. Additional details of the turnover generated by each of the Group's key activities are given below:

Turnover	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Aeronautical income	**1,523**	1,280
Retail income	**487**	460
Operational facilities and utilities income	**165**	163
Property rental income	**104**	103
Rail income	**124**	116
Other income	**71**	100
Turnover – continuing operations	**2,474**	2,222
Turnover – discontinued operations	**32**	242
Total turnover	**2,506**	2,464

Reconciliation of Adjusted EBITDA and operating profit

Adjusted EBITDA has been used to provide a clearer indication of the performance of the Group and to assist better comparison with the prior year. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

Year ended 31 December 2013	**Adjusted EBITDA £m**	**Operating exceptional items £m**	**Depreciation £m**	**Operating profit £m**
Heathrow – continuing operations[1]	**1,421**	**(114)**	**(448)**	**859**
Stansted – discontinued operations	**7**	**-**	**(7)**	**-**
Total	**1,428**	**(114)**	**(455)**	**859**

Year ended 31 December 2012	Restated[2] Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Restated[2] Operating profit £m
Heathrow – continuing operations	1,154	(152)	(470)	532
Stansted – discontinued operations	94	(31)	(40)	23
Total	1,248	(183)	(510)	555

[1] The 'continuing business segment includes Heathrow Express Operating Company Limited, Heathrow Funding Limited, Heathrow (AH) Limited and the parent company Heathrow (SP) Limited.

[2] The presentation of certain balances for the year ended 31 December 2012 has been restated for a change in accounting policy as explained in the accounting policies note

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

2 Operating costs – ordinary

	Year ended 31 December 2013 £m	Restated [1] Year ended 31 December 2012 £m
Wages and salaries	**321**	248
Social security	**32**	23
Pensions[2]	**63**	48
Other staff related	**27**	10
Employment costs[2]	**443**	329
Maintenance expenditure	**177**	137
Utility costs	**89**	89
Rents and rates	**121**	128
General expenses	**175**	133
Retail expenditure	**26**	26
Intra-group charges/other[3]	**(62)**	143
Police	**29**	29
Aerodrome navigation service charges	**55**	54
Depreciation[4]	**448**	470
Operating costs – ordinary: continuing operations	**1,501**	1,538
Operating costs – ordinary: discontinued operations	**32**	188
Total operating costs – ordinary	**1,533**	1,726

1 The presentation of certain balances for the year ended 31 December 2012 has been restated to present Stansted as discontinued operations.
2 The presentation of employment costs for the year ended 31 December 2012 has been restated for a change in accounting policy as explained in the accounting policies note.
3 Includes capitalisations related to operational readiness as explained in significant accounting judgments.
4 Includes an impairment of investment properties of £2 million for the year ended 31 December 2013 (2012: £nil).

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Employment costs[1]	**392**	381
Maintenance expenditure	**164**	154
Utility costs	**85**	87
Rents and rates	**116**	124
General expenses	**270**	296
Retail expenditure	**26**	26
Depreciation	**448**	470
Operating costs – ordinary: continuing operations	**1,501**	1,538
Operating costs – ordinary: discontinued operations	**32**	188
Total operating costs – ordinary	**1,533**	1,726

1 The presentation of employment costs for the year ended 31 December 2012 has been restated for a change in accounting policy as explained in the accounting policies note.

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

2 Operating costs – ordinary *(continued)*

Rentals under operating leases

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Operating costs include:		
Plant and machinery	**30**	27
Other operating leases	**18**	17

[1] The presentation of certain balances for the year ended 31 December 2012 has been restated to present Stansted as discontinued operations

Auditor's remuneration

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Fees payable to the Company's auditor for the audit of the Heathrow (SP) Limited group annual accounts		
Audit of the Company's subsidiaries, pursuant to legislation	**0.4**	0.5
Total audit fees	**0.4**	0.5
Fees payable to the Company's auditor and their associates for other services specific to the Heathrow (SP) Limited 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	**1.0**	1.0

Employee numbers

The Group has no employees other than the majority of HEX employees which in 2013 averaged 444 (2012: 447). Other staff engaged in the operation of the Heathrow are employed by LHR Airports Limited while Heathrow Airport Limited incurs the related staff costs. The average number of employees of LHR Airports Limited engaged in the Group's operations during the year was 5,921 (2012: 5,278). A further 1,035 (2012: 1,115) were employed in discontinued operations. Changes to the structure of operational staff and corporate services, referred to in the accounting policies, resulted in centralised service staff being associated to the operation of Heathrow therefore increasing the employee numbers for 2013.

Directors' remuneration

José Leo was a director of a number of companies within the Heathrow Airport Holdings Group during the year. His remuneration for the year ended 31 December 2013 was apportioned based on services provided to Heathrow Airport Holdings Limited (2012: Heathrow Airport Holdings Limited) and is disclosed within its financial statements. Andrew Efiong was a director of a number of companies within the Heathrow Airport Holdings Group. He was paid by, but is not a director of, Heathrow Airport Limited. The directors do not believe it is possible to accurately apportion his remuneration to other individual companies within the Group based on services provided.

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

None of the directors (2012: none) exercised any 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.

3 Exceptional items

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Operating costs – exceptional: other	**(38)**	-
Operating costs – exceptional: pensions		
Pension charge: continuing operations	**(76)**	(152)
Pension charge: discontinued operations	**-**	(31)
Total operating exceptional items	**(114)**	(183)
Exceptional impairment of fixed assets	**-**	(5)
Gain/(loss) on disposal of Stansted	**292**	(4)
Total non-operating exceptional items	**292**	(9)
Taxation on exceptional items	**26**	43
Total exceptional items after tax	**204**	(149)

Operating costs – exceptional: other

Costs associated with the Group's change programmes amounting to £22 million were charged in the year (2012: £nil). The charge relates to severance and pension payments associated with a restructuring programme being carried out in 2013 and 2014.

Operational readiness costs of £16 million are associated with managing the opening of Terminal 2 and primarily are for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 moves from the construction phase to the operational phase.

Operating costs – exceptional: pension

During 2013 there was a net exceptional pension charge of £76 million (2012: £183 million). This includes the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme deficit and of the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

Non-operating exceptional items

Exceptional impairment of fixed assets

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. This accounting charge is not expected to have an impact on these costs remaining in the airport's regulatory asset base.

Gain/(loss) on disposal of Stansted

In the year ended 31 December 2013, a £292 million credit represents the proceeds of sale of Stansted on 28 February 2013 less the value of the net assets disposed of and disposal costs related to legal fees and other separation costs. During 2012, £4 million of disposal costs related to Stansted and Gatwick.

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

4 Disposal of Stansted airport

	Year ended 31 December 2013 £m
Tangible fixed assets	1,207
Stocks	2
Debtors: due within one year	28
Cash at bank and in hand	31
Creditors: amounts falling due within one year	(28)
Deferred tax liabilities	(28)
Pension liability	(15)
Net assets disposed	**1,197**
Add disposal costs	23
Less: pension gain	(12)
Carrying value of disposed operations	1,208
Consideration satisfied by cash	(1,500)
Gain on disposal of Stansted airport	**292**

Proceeds of £1,500 million were received on the disposal of Stansted airport on 28 February 2013 which were offset by payment of pension liabilities, cash disposed of with Stansted and transaction and separation costs relating to the disposal of £90 million. Net sale proceeds were used primarily to repay the Group's revolving credit facility and for general corporate purposes.

5 Net interest payable and similar charges

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Interest receivable and similar income		
Interest receivable on derivatives not in hedge relationship	**227**	250
Pension finance income[1]	**7**	16
Interest on money market and bank deposits	**2**	-
	236	266
Interest payable and similar charges		
Interest on borrowings:		
Bonds and related hedging instruments[2]	**(575)**	(568)
Bank loans and overdrafts and related hedging instruments	**(107)**	(122)
Interest payable on derivatives not in hedge relationship[3]	**(290)**	(294)
Facility fees and other charges	**(16)**	(20)
Interest on debenture payable to Heathrow Finance plc	**(55)**	(53)
Unwinding of discount on provisions	**(1)**	-
	(1,044)	(1,057)
Less capitalised interest[4]	**164**	100
	(880)	(957)
Net interest payable before fair value (loss)/gain	**(644)**	(691)
Fair value (loss)/gain on financial instruments		
Interest rate swaps: cash flow hedge[5]	**23**	(2)
Interest rate swaps: not in hedge relationship	**54**	-
Index-linked swaps: not in hedge relationship[6]	**(147)**	109
Cross-currency swaps: cash flow hedge[5]	**2**	2
Cross-currency swaps: fair value hedge[5]	**(14)**	3
Fair value re-measurements of foreign exchange contracts and currency balances	**1**	-
	(81)	112
Net interest payable and similar charges	**(725)**	(579)

1 The presentation of pension finance income has been restated for a change in accounting policy as explained in the accounting policies note.
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 interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 6.04% (2012: 4.75%) to expenditure incurred on such assets.
5 Hedge ineffectiveness on derivatives in hedge relationship.
6 Reflects the impact on the valuation of movements in implied future inflation and interest rates and accounting adjustment in respect of accretion.

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

6 Tax on profit/(loss) on ordinary activities

	Note	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Current tax			
Current tax charge at 23.25% (2012: 24.5%)		**(20)**	(28)
Adjustments in respect of prior years		**(2)**	4
Total current tax		**(22)**	(24)
Deferred tax			
Origination and reversal of timing differences		**(47)**	(5)
Adjustments in respect of prior years		**4**	1
Change in UK Corporation tax rate - impact on deferred tax liabilities		**28**	20
Total deferred tax	*16*	**(15)**	16
Tax charge on profit/(loss) on ordinary activities		**(37)**	(8)

Reconciliation of tax charge

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Profit/(loss) on ordinary activities before tax	**426**	(33)
Tax calculated at the UK statutory rate of 23.25% (2012: 24.5%)	**(99)**	8
Effect of:		
Permanent differences - profit on disposal of Stansted	**68**	-
Permanent differences - other	**(31)**	(39)
Depreciation for the year lower than/(in excess of) capital allowances	**51**	(44)
Capitalised interest	**32**	23
Other short-term timing differences	**(41)**	24
Adjustments in respect of current tax of previous periods	**(2)**	4
Current tax charge for the year	**(22)**	(24)

The standard rate of corporation tax in the UK will change to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. Other than this change, and the unprovided deferred tax discussed in Note 16, there are no items which would materially affect the future tax charge.

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

7 Tangible fixed assets

	Note	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Rail assets £m	Other land and buildings £m	Plant, equipment and other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation										
1 January 2013		2,234	90	8,825	1,260	1,380	126	697	2,658	**17,270**
Additions		1	-	10	-	-	-	5	1,321	**1,337**
Borrowing costs capitalised		-	-	-	-	-	-	-	164	**164**
Impairment[1]		(2)	-	-	-	-	-	-	-	**(2)**
Disposals		-	-	(94)	(3)	(29)	-	(190)	-	**(316)**
Disposal of operations		(536)	(41)	(806)	(196)		(17)	(71)	(37)	**(1,704)**
Reclassifications		(1)	-	-	-	-	1	-	-	**-**
Revaluation	*20*	31	1	-	-	-	-	-	-	**32**
Transfer to completed assets		11	-	228	11	44	17	97	(408)	**-**
31 December 2013		**1,738**	**50**	**8,163**	**1,072**	**1,395**	**127**	**538**	**3,698**	**16,781**
Depreciation										
1 January 2013		-	-	(3,016)	(360)	(380)	(43)	(508)	(2)	**(4,309)**
Depreciation charge[2]		-	-	(313)	(32)	(41)	(6)	(61)	-	**(453)**
Disposals		-	-	92	3	29	-	188	2	**314**
Disposal of operations		-	-	374	79	-	4	40	-	**497**
31 December 2013		**-**	**-**	**(2,863)**	**(310)**	**(392)**	**(45)**	**(341)**	**-**	**(3,951)**
Net book value 31 December 2013		**1,738**	**50**	**5,300**	**762**	**1,003**	**82**	**197**	**3,698**	**12,830**
Net book value 31 December 2012		2,234	90	5,809	900	1,000	83	189	2,656	12,961

[1] Impairment charge of £2 million, included within depreciation in operating costs (note 2), relates to investment properties at Heathrow. CBRE Limited valued a staff car park lower than its original cost and a CIP lounge at Terminal 1 has a decreased market value due to the lease expiry in 2014 before demolition.
[2] Includes depreciation of £5 million relating to the discontinued operations in Stansted.

7 Tangible fixed assets *continued*

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2013 by CBRE Limited, Chartered Surveyors at £1,788 million (2012: £2,240 million). The decrease is primarily due to the disposal of Stansted airport. Residential properties and agricultural land at Stansted airport were valued by Strutt & Parker, Chartered Surveyors in 2012 at £84 million, resulting in a total valuation of £1,788 million (2012: £2,324 million). These valuations were prepared in consideration of the relevant accounting standards and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors taking account, inter alia, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a surplus of £32 million (2012: £38 million) has been recognised in the revaluation reserve.

Remaining terminal complexes, airfields, rail assets, other land and buildings, plant, equipment and other assets have been shown at cost less accumulated depreciation.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2013 was £610 million (2012: £773 million).

Other land and buildings

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

Assets in the course of construction

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

Capitalised interest

Included in the net book value of fixed assets are interest costs of £1,064 million (2012: £992 million). £164 million (2012: £100 million) has been capitalised in the period at a capitalisation rate of 6.04% (2012: 4.75%) based on a weighted average cost of borrowings.

Capitalised interest of £164 million (2012: £100 million) has been treated as tax deductible in the period. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Leased assets

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

	31 December 2013 **£m**	31 December 2012 £m
Cost or valuation	**2,444**	2,975
Accumulated depreciation	**(243)**	(229)
Net book amount	**2,201**	2,746

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

8 Stocks

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

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

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

9 Debtors

	31 December 2013 £m	31 December 2012 £m
Due within one year:		
Trade debtors	**176**	191
Prepayments	**63**	45
Other debtors	**36**	37
Amounts owed by group undertakings[1]	**40**	12
	315	285
Due after more than one year:		
Prepaid debt fees	**21**	13
Prepayments	**16**	15
Total debtors	**352**	313

[1] Amounts owed by group undertakings largely relate to external payments received by LHR Airports Limited under the Shared Services Agreement on behalf of Heathrow that will be remitted to Heathrow in due course. This amount is payable on demand and accrues interest at Bank of England base rate +1.5%.

10 Current asset investments

	31 December 2013 £m	31 December 2012 £m
Short-term deposits	**75**	32

Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short- and long-term credit ratings. Of these deposits, counterparties with a short-term credit rating of A-1 held assets of £75 million as at 31 December 2013 (2012: A-1+ £32 million).

11 Cash

	31 December 2013 £m	31 December 2012 £m
Cash at bank and in hand	**19**	6

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

12 Creditors: amounts falling due within one year

	Note	**31 December 2013 £m**	31 December 2012 £m
Deferred income		**27**	35
Interest accruals		**269**	266
Trade creditors[1]		**129**	117
Corporation tax payable		**6**	6
Other tax and social security		**10**	8
Group relief payable		**8**	14
Other creditors		**8**	30
Amounts owed to group undertakings[2]		**86**	18
Capital creditors		**301**	271
Borrowings	*14*	**603**	428
Derivative financial instruments	*15*	**2**	39
		1,449	1,232

[1] Trade creditors are non-interest bearing and are generally on 30-day terms.
[2] Amounts owed to group undertakings largely relate to external payments made by LHR Airports Limited under the Shared Services Agreement on behalf of Heathrow.

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

13 Creditors: amounts falling due after more than one year

	Note	31 December 2013 £m	31 December 2012 £m
Other creditors		**3**	4
Borrowings	*14*	**11,073**	11,329
Derivative financial instruments	*15*	**1,137**	1,094
		12,213	12,427

14 Borrowings

	31 December 2013 £m	31 December 2012 £m
Current borrowings		
Secured		
Bank loans	**39**	39
Bonds		
5.850% £400 million due 2013	**-**	389
4.600% €750 million due 2014	**564**	-
Total current borrowings	**603**	428
Non-current borrowings		
Secured		
Revolving credit facilities	**80**	290
Other bank loans	**175**	363
	255	653
Secured		
Bonds		
4.600% €750 million due 2014	**-**	564
3.000% £300 million due 2015	**299**	299
2.500% US$500 million due 2015	**301**	306
12.450% £300 million due 2016	**332**	344
4.125% €500 million due 2016	**405**	391
4.375% €700 million due 2017	**581**	566
2.500% CHF400 million due 2017	**271**	268
4.600% €750 million due 2018	**576**	552
6.250% £400 million due 2018	**398**	399
4.000% CAD400 million due 2019	**225**	245
6.000% £400 million due 2020	**396**	395
9.200% £250 million due 2021	**266**	283
4.875% US$1,000 million due 2021	**612**	661
1.650%+RPI £180 million due 2022	**189**	184
5.225% £750 million due 2023	**640**	632
7.125% £600 million due 2024	**588**	588
6.750% £700 million due 2026	**691**	690
7.075% £200 million due 2028	**198**	198
6.450% £900 million due 2031	**845**	864
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	**562**	547
5.875% £750 million due 2041	**740**	749
4.625% £750 million due 2046	**742**	-
	9,947	9,809
Unsecured		
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	**871**	867
Total non-current borrowings	**11,073**	11,329
Total borrowings	**11,676**	11,757

The average cost of the Group's external gross debt at 31 December 2013 was 4.53% (2012: 4.24%), 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 6.01% (2012: 5.83%). 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.

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

14 Borrowings *continued*
Bonds
The bonds are all issued by Heathrow Funding Limited. The maturity dates 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 £m**	Book value £m	Fair value £m
Non-current				
Long-term debt	**11,073**	**12,491**	11,329	13,147

The fair value of short-term borrowings approximates book value. 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.

Securities 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 in respect of the obligations of the other Obligors.

BAA Pension Trust Company Limited 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.

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.

Liquidity
As at 31 December 2013, the Group had cash and liquid resources of £94 million (2012: £38 million) and undrawn committed facilities of £2,095 million (2012: £1,693 million).

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

15 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				
Interest rate swaps	**2,213**	**2**	**(213)**	**(211)**
Cross-currency swaps	**2,990**	**141**	**(69)**	**72**
Index-linked swaps	**5,266**	**22**	**(855)**	**(833)**
	10,469	**165**	**(1,137)**	**(972)**
Total	**11,126**	**300**	**(1,139)**	**(839)**

31 December 2012	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Index-linked swaps	396	-	(39)	(39)
Foreign exchange contracts	34	-	-	-
	430	-	(39)	(39)
Non-current				
Interest rate swaps	2,336	-	(402)	(402)
Cross-currency swaps	3,503	291	(31)	260
Index-linked swaps	5,066	15	(661)	(646)
	10,905	306	(1,094)	(788)
Total	11,335	306	(1,133)	(827)

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 profit and loss account over the period of the hedged risk.

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

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

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

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

16 Deferred tax liability

	Note	£m
1 January 2013		103
Charged to profit and loss account[1]	*6*	15
Charged to fair value reserve	*22*	40
Change in UK Corporation tax rate – charged to fair value reserve	*22*	18
Release of deferred tax on disposal of Stansted	*4*	(28)
31 December 2013		**148**

[1] Includes £28 million credit to the profit and loss account for change in tax rate from 23% to 21% effective 1 April 2014 and from 21% to 20% effective 1 April 2015.

Analysis of the deferred tax balances is as follows:

	31 December 2013 £m	31 December 2012 £m
Excess of capital allowances over depreciation	**213**	190
Other timing differences	**(65)**	(87)
	148	103

	Un-provided 31 December 2013 £m	Un-provided 31 December 2012 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**170**	285
Tax on rolled over gains if replacement assets were sold at their current valuations	**7**	8
	177	293

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax un-provided for is £177 million (2012: £293 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

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 the rate of 20% in the year ended 31 December 2013. This has resulted in a reduction in the net deferred tax liability of £10 million, with £28 million credited to the profit and loss account (Note 6) and £18 million charged to reserves (Note 22).

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

17 Provisions for liabilities

	Disposal of operations £m	Reorganisation costs £m	Pensions £m	Other £m	Total £m
1 January 2013	-	2	115	5	122
Charged to profit and loss account	8	3	-	-	11
Utilised	(3)	(5)	-	(1)	(9)
Transfer in	-	-	-	11	11
Unwinding of discount charged	-	-	-	1	1
Movement in pensions	-	-	(9)	-	(9)
31 December 2013	**5**	**-**	**106**	**16**	**127**

Disposal of operations

All provisions are for costs associated with the sale of Stansted airport on 28 February 2013. All amounts are expected to be utilised in 2014.

Reorganisation costs

The costs associated with the Group's reorganisation programmes primarily relate to various restructuring processes designed to reduce the size and cost of overhead functions. £22 million of provisions have been recognised in LHR Airports Limited in relation to activities undertaken by Heathrow Airport Limited because LHR Airports Limited, as the legal employer, has the obligation. The Group has recognised a corresponding intercompany creditor with LHR Airports which relate to severance and pension payments.

Pensions

The closing provision is the share of the net deficit of the LHR Airports Limited defined benefit pension scheme and the Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical Benefits pension related liabilities allocated to the Group.

At 31 December 2013, £81 million represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2012: £92 million). The remaining £25 million (2012: £23 million) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to the Unfunded Unapproved Retirement Benefit Scheme and the Post-Retirement Medical Benefits pension related liabilities.

Other

These provisions are largely due to onerous contracts primarily relating to property leases.

18 Called up share capital

	£
Authorised	
At 1 January 2013 and 31 December 2013: 9,000,000,000 ordinary shares of £0.0019 each	17,100,000
Allotted and fully paid	
In issue at 1 January 2013 and 31 December 2013: 5,773,555,178 ordinary shares of £0.0019 each	**10,969,755**

19 Share premium reserve

	£m
1 January 2013 and 31 December 2013	**499**

20 Revaluation reserve

	£m
1 January 2013	835
Unrealised gain on revaluation of investment properties	32
Transfer to profit and loss reserve[1]	(406)
31 December 2013	**461**

[1] Relating to the disposal of Stansted airport through which the historic valuation of Stansted's investment property revaluation reserve has been realised.

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

21 Merger reserve

	£m
1 January 2013	(4,536)
Transfer to profit and loss reserve[1]	778
31 December 2013	**(3,758)**

[1] Following the sale of Stansted Airport Limited in February 2013 the components of Merger reserve attributed to that entity were realised.

Refer to the Basis of consolidation section in the Accounting policies.

22 Fair value reserve

	£m
1 January 2013	(455)
Cash flow hedges	
Fair value gains	203
Deferred tax on fair value losses	(40)
Change in UK Corporation tax rate	(18)
31 December 2013	**(310)**

23 Profit and loss reserve

	£m
1 January 2013	3,389
Profit for the year	389
Transfer from revaluation reserve	406
Dividends paid[1]	(661)
Transfer from merger reserve	(778)
31 December 2013	**2,745**

[1] During the year ended 31 December 2013, Heathrow (SP) Limited paid dividends to Heathrow Finance plc, which funded £204 million in quarterly dividends to Heathrow (SP) Limited's ultimate shareholders, a £300 million one-off return relating to the sale of Stansted airport and £157 million related to the servicing of external debt at Heathrow (SP) Limited's holding companies and rebalancing the amount of external debt between Heathrow (SP) Limited's holding companies and subsidiaries. These dividends, totalling £661 million, comprised; £24 million on 24 January 2013, £99 million on 14 February 2013, £300 million on 15 March 2013, £64 million on 27 June 2013, £83 million on 11 July 2013, £48 million on 18 September 2013 and £43 million on 20 December 2013 (2012: Heathrow (SP) Limited paid dividends of £436 million to Heathrow Finance plc, being £395 million on 15 March 2012, £20 million on 21 June 2012 and £21 million on 10 August 2012).

24 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 £1 million at 31 December 2013 (2012: £1 million).

25 Commitments

Non-cancellable operating lease commitments – Group as a lessee

Annual commitments under non-cancellable operating leases expiring:

	31 December 2013		31 December 2012	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**2**	**-**	-	-
Within two to five years	**8**	**-**	2	1
After five years	**4**	**9**	12	49
	14	**9**	14	50

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 leased on agreement with UK Power Networks Services Limited ('UPNS'). The lease expires in 2083.

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

25 Commitments *continued*

Non-cancellable electricity purchase commitment

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 contract at 31 December 2013 was nil (2012: £5 million).

Group commitments for capital expenditure

	31 December 2013 £m	31 December 2012 £m
Contracted for, but not accrued:		
Terminal 2	**44**	625
Baggage systems	**41**	52
Terminal restoration and modernisation	**22**	29
Capacity optimisation	**9**	20
Runways	**9**	-
Airside Operation Facility	**5**	-
IT projects	**-**	15
	130	741
Other projects	**67**	54
	197	795

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 £2.8 billion (in 2011/12 prices) capital investment programme in respect of the current regulatory period that now 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 has operated blight compensation schemes relating to properties that might be affected by potential future runway developments at Heathrow. However, these schemes were closed following the change in government policy in relation to runway developments in South East England. Heathrow had a remaining commitment to purchase one property at 31 December 2012, this was completed in May 2013.

In June 2006, the government concluded a night flights regime at Heathrow for the period 2006 -12. Further consultations, and a review of aviation policy, which included reference to noise insulation and mitigation schemes, have extended the existing night flights regime until October 2017. Under the proposals there is an expectation that Heathrow operate a voluntary scheme to mitigate the impact of aircraft noise. Heathrow has indicated that it will continue to offer a range of insulation schemes for both homes and community buildings that meet certain criteria. The 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 relates to the deficit reduction) that became effective from 1 January 2012. Following the disposal of Edinburgh airport, the schedule of cash contributions was reduced to £94 million per annum from January 2013 with a further reduction to £87 million per annum from January 2014 following the sale of Stansted airport. Approximately £77 million in cash contributions will be met by Heathrow in 2014.

26 Notes to the consolidated cash flow statement

Net cash inflow from operating activities

	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m
Operating profit – continuing operations	**859**	532
Adjustments for:		
Depreciation (including exceptional operating costs)	**448**	470
Working capital changes:		
Increase in stock and debtors	**(19)**	(25)
Increase/(decrease) in creditors	**21**	(10)
Net release of provisions	**(4)**	(4)
Increase in intercompany payable[2]	**51**	-
Difference between pension charge and cash contributions	**(29)**	(35)
Exceptional pension charge	**76**	152
Net cash inflow from continuing operations	**1,403**	1,080

[1] The presentation of operating profit and difference between pension charge and cash contributions for the year ended 31 December 2012 has been restated for a change in accounting policy as explained in the accounting policies note.
[2] Reflects an increased amount payable to LHR Airports for restructuring costs of £22 million, accruals of £28 million and other amounts in the ordinary course of business.

Reconciliation in net debt

	1 January 2013 £m	**Cashflow £m**	**Transfers from long term to short term £m**	**Other non-cash changes[1] £m**	**31 December 2013 £m**
Cash at bank and in hand	6	13	-	-	**19**
Debt due within one year	(428)	485	(603)	(1)	**(603)**
Debt due after more than one year	(11,329)	(417)	603	14	**(11,073)**
Liquid resources	32	43	-	-	**75**
Net debt	**(11,719)**	**124**	**-**	**13**	**(11,582)**

[1] Relates to amortisation of issue costs, premiums and discounts, foreign exchange translations of foreign debt, fair value adjustments on hedged bonds and accretion accruals.

Liquid resources are as defined in the Accounting policies under 'Cash and current asset investments'.

27 Ultimate parent undertaking and controlling party

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

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

28 Subsidiaries
The Company's subsidiaries are as follows:

Holding companies
Heathrow (AH) Limited

Airport owners and operators
Heathrow Airport Limited †

Other
Heathrow Funding Limited #
Heathrow Express Operating Company Limited †

† Held by a subsidiary undertaking
# Incorporated in Jersey

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

29 Post balance sheet events
On 10 January 2014, the CAA gave notice of its proposed licence to Heathrow under the Civil Aviation Act 2012, under which the maximum allowable yield per passenger will be RPI minus 1.5% per year (RPI minus 1.2% per year on a five-year adjusted basis), with an assumed capital plan of £2.81 billion (£2.95 billion on a five-year adjusted basis). The main changes to the CAA's previous proposal were an increase of 5.7 million passengers to the traffic forecast and a 25 basis point reduction in the assumed cost of capital. In addition, the duration of the next regulatory period has been amended to 4 years and 9 months, to align the regulatory year with Heathrow's financial year.

On 13 February 2014, the CAA formally granted Heathrow's licence to charge fees for the provision of airport services 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 £65 million was declared on 20 February 2014 and subsequently will be paid on 21 February 2014.

Heathrow (SP) Limited

Contents

Independent auditor's report to the members of Heathrow (SP) Limited

We have audited the parent company financial statements of Heathrow (SP) Limited for the year ended 31 December 2013 which comprise the Company balance sheet, the Accounting policies and the related notes 1 to 12. 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 misstatement 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 parent company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic report and Directors' report for the financial year for which the parent company 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 (SP) 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 (SP) Limited

Company balance sheet as at 31 December 2013

	Note	31 December 2013 £m	31 December 2012 £m
Fixed assets			
Investments in subsidiaries	2	**6,046**	6,046
Current assets			
Debtors (due after more than one year £nil (2012: £328m))	3	**21**	351
Cash at bank and in hand		**-**	1
		21	352
Creditors: amounts falling due within one year	4	**(67)**	(76)
Net current (liabilities)/assets		**(46)**	276
Total assets less current liabilities		**6,000**	6,322
Creditors: amounts falling due after more than one year	5	**(2,632)**	(2,814)
Net assets		**3,368**	3,508
Capital and reserves			
Called up share capital	6	**11**	11
Share premium reserve	7	**499**	499
Profit and loss reserve	8	**2,858**	2,998
Total shareholder's funds		**3,368**	3,508

The financial statements of Heathrow (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 20 February 2014. They were signed on its behalf by:

José Leo
Director

Andrew Efiong
Director

Accounting policies for the year ended 31 December 2013

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

Basis of preparation
These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')).

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

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

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

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

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

Investments in subsidiaries
Investments 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.

Creditors
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.

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

Current and deferred taxation *continued*

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

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

Dividend distribution

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

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.

Cash flow statement and related party disclosures

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

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are related to, or part of, the FGP Topco Limited group.

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

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 £521 million (2012: £13 million).

2 Investments in subsidiaries

	£m
Cost	
1 January 2013 and 31 December 2013	7,374
Impairment	
1 January 2013 and 31 December 2013	(1,328)
Net book value 31 December 2013 and 31 December 2012	**6,046**

The Company's principal subsidiary undertakings are Heathrow (AH) Limited, which is incorporated in Great Britain and registered in England and Wales, and Heathrow Funding Limited, which is incorporated in Jersey, Channel Islands. Details of the principal subsidiary undertakings of the Group are provided in Note 28 of the Heathrow (SP) Limited group financial statements.

3 Debtors

	31 December 2013 £m	31 December 2012 £m
Due within one year:		
Group relief receivable	**21**	23
	21	23
Due after more than one year:		
Amounts owed by group undertakings - interest bearing	**-**	328
Total debtors	**21**	351

Amounts owed by group undertakings - interest bearing represented a loan to Stansted Airport Limited attracting fixed rate interest of 5.62% as at 31 December 2012. The loan was repaid on disposal.

4 Creditors: amounts falling due within one year

	31 December 2013 £m	31 December 2012 £m
Amounts owed to group undertakings - interest payable[1]	**67**	76

[1] Includes interest payable of £49m to Heathrow Airport Limited and £18m to Heathrow Finance Plc.

5 Creditors: amounts falling due after more than one year

	31 December 2013 £m	31 December 2012 £m
Amounts owed to group undertakings - interest bearing	**1,761**	1,946
Debenture payable to Heathrow Finance plc	**871**	867
	2,632	2,813

Amounts owed to group undertakings – interest bearing represents loan payable to Heathrow Airport Limited of £1,762 million (2012: £1,946 million). All loans have a fixed interest rate of 7.57% (2012: 7.57%).

The debenture payable to Heathrow Finance plc is used by the entity to pay the interest on its bond and loan facilities. As at 31 December 2013, the rate on the debenture was 6.28% (2012: 6.83%). The decrease in the interest rate is primarily due to the issuance by Heathrow Finance plc in December 2012 of a fixed rate bond with a 5.375% coupon.

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

6 Share capital

	£
Authorised	
At 1 January 2013 and 31 December 2013:	
9,000,000,000 ordinary shares of £0.0019 each	**17,100,000**
Called up, allotted and fully paid	
In issue at 1 January 2013 and 31 December 2013:	
5,773,555,178 ordinary shares of £0.0019 each	**10,969,755**

7 Share premium reserve

	£m
1 January 2013 and 31 December 2013	**499**

8 Profit and loss reserve

	£m
1 January 2013	2,998
Profit for the financial year	521
Dividends paid[1]	(661)
31 December 2013	**2,858**

[1] During the year ended 31 December 2013, Heathrow (SP) Limited paid dividends to Heathrow Finance plc, which funded £204 million in quarterly dividends to Heathrow (SP) Limited's ultimate shareholders, a £300 million one-off return relating to the sale of Stansted airport and £157 million related to the servicing of external debt at Heathrow (SP) Limited's holding companies and rebalancing the amount of external debt between Heathrow (SP) Limited's holding companies and subsidiaries. These dividends, totalling £661 million, comprised; £24 million on 24 January 2013, £99 million on 14 February 2013, £300 million on 15 March 2013, £64 million on 27 June 2013, £83 million on 11 July 2013, £48 million on 18 September 2013 and £43 million on 20 December 2013 (2012: Heathrow (SP) Limited paid dividends of £436 million to Heathrow Finance plc, being £395 million on 15 March 2012, £20 million on 21 June 2012 and £21 million on 10 August 2012).

9 Auditor's remuneration

Audit fees are recharged in accordance with the group Shared Service Agreements ('SSAs') into the operating entities. This entity is not an operating entity and is therefore not party to the SSAs 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.

Details of fees for other services are provided in Note 2 of the Heathrow (SP) Limited group financial statements.

10 Employee information and directors' remuneration

Employee numbers

The Company has no employees (2012: nil).

Directors' remuneration

Details of directors' remuneration for the year are provided in Note 2 of the Heathrow (SP) Limited group financial statements.

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

11 Ultimate parent undertaking

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

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

12 Post balance sheet events

On 10 January 2014, the CAA gave notice of its proposed licence to Heathrow under the Civil Aviation Act 2012, under which the maximum allowable yield per passenger will be RPI minus 1.5% per year (RPI minus 1.2% per year on a five-year adjusted basis), with an assumed capital plan of £2.81 billion (£2.95 billion on a five-year adjusted basis). The main changes to the CAA's previous proposal were an increase of 5.7 million passengers to the traffic forecast and a 25 basis point reduction in the assumed cost of capital. In addition, the duration of the next regulatory period has been amended to 4 years and 9 months, to align the regulatory year with Heathrow's financial year.

On 13 February 2014, the CAA formally granted Heathrow's licence to charge fees for the provision of airport services 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 £65 million was declared on 20 February 2014 and subsequently will be paid on 21 February 2014.