03145133

Heathrow Express Operating Company Limited
Annual report and financial statements
for the year ended 31 December 2013

Heathrow Express Operating Company Limited

Contents

Heathrow Express Operating Company Limited

Officers and professional advisers

Directors
Keith Greenfield
Fidel López
Robert Smallwood
Christopher Green

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Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
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Heathrow Express Operating Company Limited

Strategic and directors' report

Strategic report
The Company operates the rail service between Heathrow airport and Paddington station, London The Company's parent, Heathrow Airport Limited ('Heathrow'), is entitled to all receipts and income relating to the Company but the day-to-day operation of Heathrow Express and Heathrow Connect is undertaken by the Company on behalf of Heathrow In return for providing these services, Heathrow pays the Company a management fee and reimburses all of its operating costs

Review of business and future developments
Key events occurring during the year and developments since the beginning of 2013 are detailed below

During the year the Heathrow Express service carried a total of 5 84 million passengers and Heathrow Connect carried 0 50 million passengers driving a market share of 11 1% (2012 11 1%) The combined passenger number for both services increased by 5 0 % from 6 04 million in 2012 to 6 35 million in 2013 Total Heathrow passenger growth was 3 4% and the through ticket transfer rate (i e passengers who have purchased a 'through-ticket' with the airline, therefore never leaving the airport) decreased 0 5% to 26 9% (2012 27 4%), this measure does not take into account passengers who transfer through the airport without buying a through ticket from an airline and this is estimated to represent between 7% and 9% of total passengers Passenger growth has been achieved in the face of frequent planned Crossrail engineering works which were heavily escalated over the Easter and Christmas periods

Heathrow Express operational performance dropped slightly with the Heathrow Express Public Performance Measure ('PPM') 93 75% (2012 94 1%) and punctuality 90 0% (2012 90 8%) The PPM for Heathrow Connect was 92 8% (2012 92 8%) The Crossrail engineering works were a key driver of this small reduction in performance causing unplanned disruptions to the timetable through frequent possession overruns

Modernisation of the train carriages was substantially completed by the end of the year, a new uniform was issued to all customer-facing staff and the entire estate was re-branded The benefits of such initiatives can be seen with Heathrow Express polling 1st position in the National Rail Passenger Survey (Autumn 2013) with an overall score of 96% (Autumn 2012 93%, 4th position)

In 2014, the Company will continue to focus on delivering a safe and exemplary service to its customers whilst delivering growth plans in a tough cost control environment, mitigating the risk to volume when Terminal 2 (T2) opens in June 2014 which will increase the distance and time to reach the train platform for T2 passengers and Crossrail works, which are scheduled to continue for the whole of the year

Principal Risks and Uncertainties and Risk management
Risk management is key element of the Heathrow Airport Holdings Limited Group's (the 'Heathrow Airport Holdings Group') corporate operations Risk is centrally managed from Heathrow Airport Holdings Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to Accounting policies) In addition, the Company has a fully dedicated senior team which implements and manages risk closely The executive Committee, Board, Audit Committee ('AC') referred to below relate to the Executive Committee, Board and AC of Heathrow Airport Holdings Limited

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

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

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

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

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

Strategic and directors' report *continued*

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

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

Security risks
Security risks are regarded as critical risks to manage throughout the Heathrow Airport Holdings Group The Company mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology The Heathrow Airport Holdings Group works closely with government agencies including the police and Border Force building a framework to establish joint accountabilities for security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment

The Company has a security plan for stations and trains which adhere to regulations laid down by the Government Department of Transport

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

Commercial and financial risks
Industrial relations
The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Company is recognised The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions The Heathrow Express pay agreement was reached in June 2013 and negotiations for a new agreement are currently taking place

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

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

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

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

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

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

Strategic and directors' report *continued*

Principal Risks and Uncertainties and Risk management *continued*
Commercial and financial risks continued
Treasury continued

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

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

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

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

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

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

On behalf of the Board

Keith Greenfield
Director
30 April 2014

Company registration number 03145133

Strategic and directors' report *continued*

Directors' Report

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

Principal activities

The Company operates the rail service between Heathrow airport and Paddington station, London The Company's parent, Heathrow Airport Limited ('Heathrow'), is entitled to all receipts and income relating to the Company but the day-to-day operation of Heathrow Express and Heathrow Connect is undertaken by the Company on behalf of Heathrow In return for providing these services, Heathrow pays the Company a management fee and reimburses all of its operating costs

Results and dividends

The profit after taxation for the financial year amounted to £4 98 million (2012 £4 56 million) No dividends were proposed or paid during the year (2012 £nil) The statutory results for the year are set out on page 9

Directors

The Directors who served during the year, except as noted, are as follows

Keith Greenfield	
Benjamin Harding	Resigned 9th May 2013
Fidel Lopez	
Robert Smallwood	
Christopher Green	Appointed 9th May 2013

Employment policies

The Company's employment policies are designed to balance the needs of the business, the customer and the employee and to enable it to attract, recruit and retain high performing individuals from the diverse communities that it provides services to The Company remains committed to encouraging diversity and fair and consistent practices in all stages of the employee life cycle, from recruitment onwards The Company's Diversity policy takes account of relevant legislation and full consideration and support is given to employees who become disabled or require flexible working arrangements in order to remain employed

Opportunities for development and progression are available to all and learning and development activities receive a high priority to continuously improve the performance of individuals and teams and to retain talented individuals
The Company places great emphasis and allocates substantial resources to ensure that the views of employees are sought and employees are engaged in delivering against business objectives

Collective consultation takes place with two rail unions, ASLEF (Association of Locomotive Engineers and Firemen) and the RMT (Rail, Maritime and Transport workers union), for a large proportion of the Company's employees In addition regular formal and informal consultation processes exist for consulting with all employees directly, including working parties, training days for operational employees, employee surveys and line manager briefings

A number of internal communications tools exist, such as daily newsletters, a company intranet/extranet site and employee briefing processes, the aims of which are to ensure employees have both the knowledge to effectively carry out their day-to-day activities but also to further understand the importance of their actions in achieving financial and service performance targets
Reward and recognition practices also seek to align individual performance to Company objectives and financial targets for employees, managers and senior managers Bonuses paid to employees and managers are linked to performance against financial targets

Supplier payment policy

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

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

The Company had 6 days' purchases outstanding at 31 December 2013 (2012 5 days) based on the average daily amount invoiced by suppliers during the year

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment 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

Strategic and directors' report *continued*

Auditor

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

Statement of disclosure of information to the Auditor

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

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

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

On behalf of the Board

Keith Greenfield
Director

30 April 2014

Company registration number 03145133

Heathrow Express Operating Company Limited

Directors' responsibilities statement

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

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

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

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

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

On behalf of the Board

Keith Greenfield
Director

30 April 2014

Heathrow Express Operating Company Limited

Independent auditor's report to the members of Heathrow Operating Company Limited

We have audited the financial statements of Heathrow Express Operating Company Limited for the year ended 31 December 2013 which comprise the Profit and loss account, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies and the related notes 1 to 13 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the 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 misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and Directors' reports 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

Jacqueline Holden, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

30 April 2014

Heathrow Express Operating Company Limited

Profit and loss account for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Turnover		**67,413**	64,900
Operating costs - ordinary	1	**(61,287)**	(59,018)
Operating (costs)/gains – exceptional pensions	2	**209**	(290)
Total operating costs		**(61,078)**	(59,308)
Operating profit		**6,335**	5,592
Net interest receivable and similar income	3	**258**	219
Profit on ordinary activities before taxation		**6,593**	5,811
Tax charge on profit on ordinary activities	4	**(1,612)**	(1,252)
Profit on ordinary activities after taxation	11	**4,981**	4,559

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

There are no recognised gains or losses for the current or prior year other than those stated in the Profit and Loss Account and accordingly no Statement of Total Recognised Gains and Losses is presented

Heathrow Express Operating Company Limited

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

	Note	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Profit for the financial year	*11*	**4,981**	4,559
Net movement in shareholder's funds		**4,981**	4,559
Opening shareholder's funds		**21,682**	17,123
Closing shareholder's funds		**26,663**	21,682

There is no material difference between the historical cost profits and losses and the Profit and Loss Account

Heathrow Express Operating Company Limited

Balance sheet as at 31 December 2013

	Note	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Fixed assets			
Tangible fixed assets	5	115	83
Total fixed assets		115	83
Current assets			
Debtors	6	32,272	26,382
Cash at bank and in hand	7	1,593	946
Total current assets		33,865	27,328
Current liabilities			
Creditors amounts falling due within one year	8	(7,131)	(5,479)
Net current assets		26,734	21,849
Total assets less current liabilities		26,849	21,932
Provisions for liabilities and charges	9	(186)	(250)
Net assets		26,663	21,682
Capital and reserves			
Called up share capital	10	-	-
Profit and loss reserve	11	26,663	21,682
Total shareholder's funds		26,663	21,682

The financial statements of Heathrow Express Operating Company Limited (Company registration number 03145133) were approved by the Board of Directors and authorised for issue on 30 April 2014 They were signed on its behalf by

Keith Greenfield
Director

Fidel López
Director

Accounting policies for the year ended 31 December 2013

The principal accounting policies applied in the preparation of the financial statements of Heathrow Express Operating Company 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 has adequate resources to continue in operational existence for the foreseeable future The Company forms part of the Heathrow (SP) Limited group (the 'SP Group') which is the smallest group to consolidate these financial statements and the level at which financial risks are managed for the Company

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

As a result of the review 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

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

All revenue was received from Heathrow Airport Limited and represents the costs incurred providing the rail service on behalf of Heathrow Airport Limited plus a 10% management fee, net of VAT

All fare and commercial revenue is collected on behalf of Heathrow Airport Limited by the Company and transferred directly to Heathrow Airport Limited

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

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

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

Tangible fixed assets
Rolling stock and all major assets used by the service are owned and depreciated by Heathrow Airport Limited

Assets owned by the Company are stated at cost less accumulated depreciation

Depreciation is provided on these operational assets, mainly office and computer equipment, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as follows

	Fixed asset lives
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Computer software	3 - 7 years

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

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

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

Company as a lessee
Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term

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

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

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
Creditors are recognised at cost

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

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

Pension costs – defined contribution pension scheme
The main pension fund for the Company is a defined contribution group personal pension plan Pension costs are based on a fixed percentage of salary, up to a maximum of 9 6% for employees, which is agreed at the commencement of their contract and continues to be paid whilst employed by the Company The costs are charged to the Profit and Loss Account on the basis of costs incurred during the year This charge is included within ordinary staff pension costs

As detailed under the Shared Services Agreement, certain employees are members of the LHR Airports Limited defined benefit pension scheme Full details of this scheme are disclosed in the financial statements of LHR Airports Limited for the year ended 31 December 2013

Shared Services Agreement ('SSA')
On 18 August 2008, the Company entered into a SSA with LHR Airports Limited by which the latter became the shared services provider of corporate services

Corporate and centralised services
LHR Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting These services are charged in accordance with the SSA with a mark-up of 7 5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the Company

Pension costs – defined benefit pension scheme
LHR Airports Limited sponsors part of the Company's employees under the LHR Airports Limited defined pension scheme while the defined contribution scheme is made available to the remaining employees

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

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

Current and deferred taxation
The tax expense for the year comprises current and deferred tax Tax is recognised in the Profit and Loss Account, except to the extent that it relates to items recognised directly in reserves In this case, the tax is also recognised in reserves

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

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

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

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

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

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

Cash flow statement and related party transactions

The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2013 The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2013 (parent entity of 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 wholly owned subsidiaries of FGP Topco Limited

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

1 Operating costs – ordinary

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Wages and salaries	**19,303**	18,504
Social security	**2,075**	1,982
Pensions[1]	**687**	528
Other staff related costs	**1,603**	1,576
Employment costs	**23,668**	22,590
Maintenance expenditure	**16,493**	16,529
Utility costs	**2,186**	1,979
Rents and rates	**2,208**	1,718
General expenses[2]	**14,235**	13,799
Intra-group charges/other[3]	**2,453**	2,367
Depreciation	**44**	36
	61,287	59,018

[1] Pension costs include £608,000 (2012 £487,000) of pension costs related to the Company's defined contribution pension scheme and £79,000 (2012 £41,000) which are recharges from LHR Airports Limited in relation to the LHR Airports Limited defined benefit pension scheme Refer to the Accounting policies

[2] General expenses include the costs for track access to Network Rail, police, insurance and marketing expenditure

[3] Intra-group charges were for electricity, corporate management fee, IT, car parking telephones and lift maintenance (2013 only)

Rentals under operating leases

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Operating costs include		
Plant and machinery	**239**	234
Other operating leases	**9,230**	8,475

Auditors' 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 £'000	Year ended 31 December 2012 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts		
Audit of the Company pursuant to legislation	**23**	16

Employee information

The average number of employees of the Company during the year was 444 (2012 447)

1 Operating costs – ordinary *continued*

Directors' remuneration

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Directors' remuneration		
Aggregate emoluments[1]	**313**	268
Value of Company pension contributions to pension schemes	**20**	20
	333	288

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

Keith Greenfield was paid by, but is not a director of, LHR Airports Limited Fidel López was director of a number of companies within the Heathrow Airport Holdings Group, including Heathrow Airport Limited, during the year His remuneration for the year ended 31 December 2013 was apportioned based on services provided to Heathrow Airport Limited and as such is disclosed within its financial statements Robert Smallwood and Christopher Green were paid and are directors of the Company

The directors participate in various Long Term Incentive Performance Cash Plans (the 'Plans') operated by LHR Airports Limited In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on equity and other operational targets over a three year period For the year ended 31 December 2013, the director's remuneration includes £28,000 payable in 2014 (2012 £19,000 paid in 2013) in respect of the 2011 Plans after certain targets were met over the three year period from 2011 to 2013 As the financial performance in respect of the 2012 and 2013 Plans is uncertain at this stage, no value in relation to these awards is included above

2 Exceptional items

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Pension (credit) / charge	**(209)**	290

During 2013 there was a net exceptional pension credit of £208,620 (2012 £290,000 charge) This includes the Company's share of the movement in the LHR Airports Limited defined benefit pension scheme, the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities

3 Net interest receivable and similar income

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Interest receivable from group undertaking	**256**	217
Interest receivable on bank deposits	**2**	2
Net interest receivable and similar income	**258**	219

4 Tax charge on profit on ordinary activities

	Note	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Current tax			
Group relief payable		**1,604**	1,189
Adjustments in respect of prior periods		**30**	(176)
Total current tax charge		**1,634**	1,013
Deferred tax			
Origination and reversal of timing differences		**(33)**	227
Adjustments in respect of prior periods		**(13)**	(22)
Change in tax rate		**24**	34
Total deferred tax charge/(credit)	*6*	**(22)**	239
Tax charge on profit on ordinary activities		**1,612**	1,252

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 23 25% (2012 24 5%) The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Profit on ordinary activities before tax	**6,593**	5,811
Tax on profit on ordinary activities at 23 25% (2012 24 5%)	**1,533**	1,424
Effect of		
Permanent differences	**23**	(13)
Capital allowances for the year in excess of depreciation	**(3)**	(9)
Other short-term timing differences	**51**	(213)
Adjustments to tax charge in respect of prior periods	**30**	(176)
Current tax charge for the year	**1,634**	1,013

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 Other than this change there are no items which would materially affect the future tax charge

5 Tangible fixed assets

	Plant, equipment & other assets £'000
Cost	
1 January 2013	303
Additions at cost	76
Disposals	-
31 December 2013	**379**
Depreciation	220
1 January 2013	44
Charge for the year	
Disposals	-
31 December 2013	**264**
Net book value 31 December 2013	**115**
Net book value 31 December 2012	83

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

6 Debtors

	31 December 2013 £'000	31 December 2012 £'000
Due within one year		
Trade debtors	**9,181**	7,912
Amounts owed by group undertakings[1]	**19,974**	15,535
Other debtors	**2,908**	2,748
	32,063	26,195
Due after more than one year		
Deferred tax asset	**209**	187
Total debtors	**32,272**	26,382

[1] Amounts owed by group undertakings are repayable on demand and accrue interest at Bank of England base rate +1 5% £16,234,000 (2012 £11,780,000) is owed by Heathrow Airport Limited and primarily represents reimbursement of cost plus management fee The remaining amount of £3,740,000 (2012 £3 755 000) is owed by LHR Airports Limited due to VAT repayments and other miscellaneous charges

Deferred tax

	£'000
1 January 2013	187
Charged to profit and loss account	22
31 December 2013	**209**

Analysis of the deferred tax asset balances is as follows

	31 December 2013 £'000	31 December 2012 £'000
Excess of capital allowances over depreciation	**47**	57
Other timing differences	**162**	130
	209	187

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

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015 As a result, the Company's deferred tax balances, which were previously provided at 23% have been re-measured at the rate of 20% This has resulted in the net deferred tax of £24,000 being charged to the profit and loss account

7 Cash at bank and in hand

	31 December 2013 £'000	31 December 2012 £'000
Cash at bank and in hand	**1,593**	946

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

8 Creditors amounts falling due within one year

	31 December 2013 £'000	31 December 2012 £'000
Bank overdraft	**12**	5
Trade creditors	**260**	167
Amounts owed to group undertakings – interest free	**-**	26
Accruals and deferred income	**5,335**	4,163
Group relief payable	**844**	405
Other tax and social security	**555**	561
Other creditors	**125**	152
	7,131	5,479

9 Provisions for liabilities and charges

	Pension costs £'000
1 January 2013	250
Movement in pensions	(64)
31 December 2013	**186**

Pension costs

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

At 31 December 2013, £142,000 represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2012 deficit of £201,000) The remaining deficit of £44,000 (2012 £49,000 deficit) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities

10 Called up share capital

	£
Authorised	
At 1 January 2013 and 31 December 2013	
100 ordinary shares of £1 each	100
Called up, allotted and fully paid	
At 1 January 2013 and 31 December 2013	
2 ordinary shares of £1 each	2

11 Reserves

	Profit and loss reserve £'000
1 January 2013	21,682
Profit for the financial year	4,981
31 December 2013	**26,663**

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

12 Commitments and contingent liabilities

Commitments under operating leases

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

	31 December 2013		31 December 2012	
	Land & buildings £'000	Other leases £'000	Land & buildings £'000	Other leases £'000
Leases which expire				
within one year	-	-	-	35
within two to five years	516	63	285	35
after five years	-	8,714	199	7,991
	516	8,777	484	8,061

Contingent liabilities

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

The Company, together with Heathrow Airport 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

13 Ultimate parent undertaking

The immediate parent undertaking is Heathrow Airport Limited, a company registered in England and Wales

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements The shareholders of FGP Topco Limited are Hubco Netherlands B V (25 00%) (an indirect subsidiary of Ferrovial, S A , Spain), Qatar Holding Aviation (20 00%) (a wholly owned subsidiary of Qatar Holding LLC), Caisse de depôt 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) and 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, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW