Expeditors International (UK) Limited

Annual report and financial statements

Registered number 1872622

For the year ended 31 December 2013

Contents

Strategic Report

Expeditors International (UK) Ltd ("the company") is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight, as well as acting as a customs broker. The company also provides additional services including order management, time definite transportation, warehousing and distribution, cargo insurance and customized logistics solutions.

International trade is influenced by many factors, including economic and political conditions in the United Kingdom and abroad, currency exchange rates and United Kingdom and foreign laws and policies relating to tariffs, trade restrictions, regional and global conflicts. Periodically, governments consider a variety of changes to current tariffs and trade restrictions. The company cannot predict which, if any, of these proposals may be adopted, nor can the company predict the effects the adoption of any such proposal will have on the company's business.

As a non-asset based carrier, the company does not own transportation assets. Rather, the company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. By consolidating shipments from multiple customers and concentrating its buying power, the company is able to negotiate favourable buy rates from the direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

The company's ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean lines and governmental agencies. The company considers its current working relationships with these entities to be satisfactory. However, changes in space allotments available from carriers or changes in governmental quota restrictions could affect the company's business in unpredictable ways.

The company is a service business. The quality of this service is directly related to the quality of the company's employees. Identifying, training and retaining key employees is essential to continued growth and future profitability. In order to retain the services of highly qualified, experienced and motivated employees, the company places considerable emphasis on its non-equity incentive compensation programs.

Taking account of the above considerations, the company believes it is well positioned to grow the business, given the strong balance sheet and experienced workforce.

The company monitors the following key performance indicators:

KPI	2013	2012
	£m	£m
Turnover	100	102
Gross Profit	32	34
Operating Profit	5	7

Airfreight services revenues in 2013 decreased 4% as compared with 2012, as a result of lower sell and buy rates that reflected continued soft market conditions primarily caused by higher available capacity relative to demand. Ocean freight and ocean services revenues decreased 6% as compared with 2012 primarily driven by lower sell rates to customers and buy rates from carriers, reflecting increased carrier capacity that outpaced overall market demand.

The movement in the GBP/USD exchange rate during the year, resulted in an exchange gain of £0.6 million on the USD loan of $54.25 million, compared to a gain of £1.4 million in 2012.

By order of the board

B Baron
Director
25/09/2014

1 Ascot Road
Bedfont
Middlesex
TW14 8QH

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2013.

Directors

The directors who held office during the year were as follows:

B L Baron
R C Saber
R J Gates
P J Rose

Proposed dividend

The directors do not recommend the payment of a final dividend *(2012: £nil)*.

Employees

The company is committed to promoting equality of opportunity for all staff and job applicants. We aim to create a working environment in which all individuals are able to make best use of their skills, free from discrimination or harassment, and in which all decisions are based on merit. The company does not discriminate against staff on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

B Baron
Director
25/09/2014

1 Ascot Road
Bedfont
Middlesex
TW14 8QH

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Independent Auditor's report to the members of Expeditors International (UK) Limited

We have audited the financial statements of Expeditors International (UK) Limited for the year ended 31 December 2013 set out on pages 7 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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

A description of the scope of an audit of financial statements is provided on the FRC's web-site at www.frc.org.uk/auditscopeukprivate.

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 UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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.

Independent auditors' report to the members of Expeditors International (UK) Limited
(continued)

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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Kevin Hall, (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD

26 September 2014

Profit and loss account

for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Turnover	2	**99,802**	102,010
Cost of sales		**(68,080)**	(68,292)
Gross profit		**31,722**	33,718
Administrative expenses		**(26,414)**	(27,071)
Operating profit		**5,308**	6,647
Other interest receivable and similar income	6	**619**	1,442
Interest payable and similar charges	7	**(520)**	(568)
Profit on ordinary activities before taxation	*3-5*	**5,407**	7,521
Tax on profit on ordinary activities	*8*	**(1,390)**	(2,282)
Profit for the financial year		**4,017**	5,239

There were no recognised gains or losses in the current or preceding year other than those noted above. All figures relate to continuing activities.

Balance sheet
as at 31 December 2013

	Note	2013		2012	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		58,141		59,381
Current assets					
Debtors	10	30,148		28,184	
Cash at bank and in hand		17,244		13,127	
		47,392		41,311	
Creditors: amounts falling due within one year	11	(30,250)		(29,260)	
Net current assets			17,142		12,051
Total assets less current liabilities			75,283		71,432
Creditors: amounts falling due after more than one year	12		(38,467)		(39,091)
Provisions for liabilities	13		(2,107)		(2,107)
Net assets			34,709		30,234
Capital and reserves					
Called up share capital	15		7		7
Profit and loss account	16		34,702		30,227
Shareholder's funds	17		34,709		30,234

These financial statements were approved by the board of directors on 25/09/2014 and were signed on its behalf by:

B Baron
Director

Company registered number: *1872622*

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Expeditors International of Washington Inc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries of the parent company which form part of the group.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Land	not depreciated
Freehold Buildings	40 years
Leasehold improvements	life of lease
Office furniture, fittings and equipment	$33^1/_3$% per annum
Warehouse equipment	20% per annum
Computer equipment	$33^1/_3$% per annum

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. Exchange differences arising from normal trading operations and settled transactions are included in trading profit.

Leases

Operating lease rental charges are charged to the profit and loss account on a straight line basis over the life of the lease. Provision is made for the estimated costs of dilapidation repairs required under the lease, when a reliable estimate can be made for these.

Notes *(continued)*

1 Accounting policies *(continued)*

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Share based payments

The share option programme allows employees to acquire shares in Expeditors International of Washington Inc., the sole shareholder of the company. The fair value of options granted after 7 November 2002 and those not yet vested as at the 1 January 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Turnover

Turnover represents charges made to customers for freight services carried out during the year, after deduction of credit notes and VAT.

2 Analysis of turnover

The whole of the turnover is attributable to the one principal activity of the company.

	2013 £000	2012 £000
By geographical market		
United Kingdom	**73,178**	72,371
Rest of European Union	**3,937**	3,717
Rest of World	**22,687**	25,922
Total	**99,802**	102,010

Notes *(continued)*

3 Notes to the Profit and Loss Account

	2013 £000	2012 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation of tangible fixed assets	**1,595**	1,530
Operating lease rentals	**1,048**	1,125
Foreign exchange (gains)/losses	**(582)**	(1,439)

Auditors' remuneration:

	2013 £000	2012 £000
Audit of these financial statements	**12**	12

4 Remuneration of directors

	2013 £000	2012 £000
Emoluments – direct by the company	**148**	206
Emoluments – indirect by group companies	**35**	35
Pension contributions – indirect by group companies	**16**	19
	199	260

During 2008 all directors became remunerated by a fellow group company following which this company is recharged amounts which include the services of one director to the company. The indirect emoluments and pension contributions shown above represent the estimated proportion of recharges which relate to the services based on a percentage of net revenue.

Retirement benefits are accruing to 1 director *(2012: 1 director)* under money purchase schemes.

Share options were exercised by 3 directors *(2012: 3 directors)*.

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2013	2012
Operations	**323**	328
Administration and finance	**100**	99
Sales	**29**	27
	452	454

The aggregate payroll costs of these persons were as follows:

	2013 £000	2012 £000
Wages and salaries	**13,932**	14,198
Share based payments (see note 20)	**458**	586
Social security costs	**1,639**	1,582
Other pension costs (see note 19)	**570**	544
	16,599	16,910

6 Other interest receivable and similar income

	2013 £000	2012 £000
Other	**37**	3
Gain on foreign currency translation	**582**	1,439
	619	1,442

7 Interest payable and similar charges

	2013 £000	2012 £000
Payable to group undertakings	**520**	568
	520	568

Notes *(continued)*

8 Taxation

	2013	2013	2012	2012
	£000	£000	£000	£000
UK corporation tax				
Current tax on income for the period	1,317		2,040	
Adjustments in respect of prior periods	(22)		(3)	
Total current tax		1,295		2,037
Deferred tax				
Origination/reversal of timing differences	95		245	
Total deferred tax		95		245
Tax on profit on ordinary activities		1,390		2,282

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2012: higher)* than the standard rate of corporation tax in the UK (23.25%, *2012: 24.5%*). The differences are explained below:

	2013	2012
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	5,407	7,521
Current tax at 23.25% *(2012: 24.5%)*	1,257	1,842
Effects of:		
Expenses not deductible for tax purposes	83	218
Capital allowances in (excess)/deficit of depreciation	(149)	(156)
Other short term timing differences	20	(8)
Share based payment expense	106	144
Adjustment in respect of prior years	(22)	(3)
Total current tax charge (see above)	1,295	2,037

The main rate of UK corporation tax reduced from 26% to 24% with effect from 1 April 2012. Legislation to further reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was enacted in the Finance Act 2012. This tax change became substantively enacted on 17 July 2012 and the effect of the change on the deferred tax balances has been included in the figures above.

The Chancellor announced in the Autumn Statement 2012 a further reductions to the main rate of corporation tax to 21% from 1 April 2014 and in the Budget 2013 a reduction to 20% from 1 April 2015. These changes have not been substantively enacted and are not reflected in the figures above.

Notes *(continued)*

9 Tangible fixed assets

	Freehold buildings £000	Land £000	Leasehold improvements £000	Office furniture fittings & equipment £000	Warehouse equipment £000	Computer equipment £000	Total £000
Cost							
At beginning of year	19,503	37,755	3,403	1,254	2,277	2,063	66,255
Additions	-	-	70	41	27	218	356
Disposals	-	-	(5)	(58)	(9)	(59)	(131)
At end of year	19,503	37,755	3,468	1,237	2,295	2,222	66,480
Depreciation							
At beginning of year	823	-	2,023	966	1,447	1,615	6,874
Charge for year	494	-	264	130	382	325	1,595
On disposals	-	-	(5)	(58)	(10)	(57)	(130)
At end of year	1,317	-	2,282	1,038	1,819	1,883	8,339
Net book value							
At 31 December 2013	**18,186**	**37,755**	**1,186**	**199**	**476**	**339**	**58,141**
At 31 December 2012	18,680	37,755	1,380	288	830	448	59,381

10 Debtors

	2013 £000	2012 £000
Trade debtors	**26,180**	22,594
Amounts owed by parent and fellow subsidiary undertakings	**2,564**	4,021
Deferred tax (see note 14)	**10**	105
Other debtors	**745**	795
Prepayments and accrued income	**649**	669
Prepaid tax	-	-
	30,148	28,184

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	**24,907**	22,108
Amounts owed to parent and fellow subsidiary undertakings	**2,953**	4,745
Taxation and social security	**1,213**	1,598
Other creditors	**114**	125
Accruals	**1,063**	684
	30,250	29,260

12 Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Amount owed to group undertaking	**38,467**	39,091

Interest is payable at LIBOR +1%.

The loan is denominated in USD and is repayable on demand. The directors, however, have agreed with their parent undertaking that it will not seek repayment of the loan in the next twelve months, so long as the company maintains an interest in the property for which the loan was made, therefore it is included above.

13 Provisions for liabilities

	Repair obligation £000
At beginning of year	2,107
Recognition of repair obligation	-
At end of year	**2,107**

The company has various property leases which require the company to return the property to the landlord at the end of the tenancy in a specified condition. The above provision is recognised as the estimated cost of returning these premises to the condition specified in the leases.

Notes *(continued)*

14 Deferred tax asset

The elements of deferred taxation are as follows:

	2013 £000	2012 £000
Difference between accumulated depreciation and capital allowances	**(194)**	(75)
Estimated future deduction for share based payments	**147**	107
Other timing differences	**57**	73
	10	105

	2013 £000	2012 £000
At the start of the year	**105**	350
Deferred tax charge in the profit and loss account	**(95)**	(245)
At the end of the year	**10**	105

Deferred tax has been calculated at 20% being the rate substantively enacted at the balance sheet date.

15 Called up share capital

	2013 £000	2012 £000
Allotted, called up and fully paid		
6,600 Ordinary shares of £1 each	**7**	7

16 Reserves

	Profit and loss account £000
At beginning of year	30,227
Profit for the year	4,017
Credit in relation to share based payments	458
At end of year	**34,702**

Notes *(continued)*

17 Reconciliation of movements in shareholder's funds

	2013 £000	2012 £000
Profit for the financial year	**4,017**	5,239
Credit in relation to share based payments (note 20)	**458**	586
Net addition in shareholder's funds	**4,475**	5,825
Opening shareholder's funds	**30,234**	24,409
Closing shareholder's funds	**34,709**	30,234

18 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2013 Land and Buildings £000	2012 Land and Buildings £000
Operating leases which expire:		
Within one year	**6**	6
2-5 years	**712**	581
Over 5 years	**370**	370
	1,088	957

19 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £570,434 *(2012: £543,657)*. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes *(continued)*

20 Share based payments

Share based compensation plans

Employees of the company receive stock options under stock option plans of Expeditors International of Washington, Inc. the sole shareholder of the company. At 31 December 2013, Expeditors International of Washington, Inc. has two stock option plans (the "1985 Plan" and the "2009 Plan") for employees under which its Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. Under the stock option plans, outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant. The company does not incur any obligation as a result of the grant of stock options by Expeditors International of Washington, Inc. to its employees and does not issue any share nor any cash settlement upon exercise of the options by its employees.

Also, employees of the company may participate to Expeditors International of Washington, Inc.'s Employee Stock Purchase Plan ("2002 Plan"), which became effective 1 August 2002. The 2002 Plan provides for shares of Expeditors International of Washington, Inc.'s common stock to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning 1 August of each year. The purchase rights are exercisable on 31 July of the following year at a price equal to the lesser of (1) 85% of the fair market value of the company's stock on 31 July or (2) 85% of the fair market value of the company's stock on the preceding 1 August. The company does not issue any share nor any cash settlement upon exercise of the purchase rights by its employees.

The fair value of services received in return for share based payments is measured by reference to an estimate of the fair value of options awarded under Expeditors International of Washington Inc.'s fixed stock option or employee stock purchase rights plans.

As of 31 December 2013, employees of the company held 248,628 outstanding options with an average remaining contractual life of 5.9 years. Details of the movement in the outstanding options between 1st January 2013 and 31st December 2013 are detailed below:

	Shares		**Weighted-Average Exercise Price**	
	2013	2012	**2013**	2012
Shares outstanding as at 1st Jan 2012	**274,113**	262,538	**$41.80**	$41.01
Options granted	**39,150**	36,450	**$35.32**	$40.74
Options exercised	**(18,134)**	(12,650)	**$26.04**	$17.13
Options forfeited	**(22,788)**	(3,350)	**$43.56**	$45.56
Movement due to employees transferring to/from the UK	**(23,713)**	(8,875)	**-**	-
Shares outstanding as at 31st Dec 2013	**248,628**	274,113	**$41.77**	$42.00
Shares exercisable as at 31st Dec 2013	**118,541**	126,249	**$40.54**	$38.71

Notes *(continued)*

20 Share based payments *(continued)*

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants issued during the years ended 31 December 2013 and 2012:

	2013	2012
Weighted average share and exercise price - stock option plans	**$35.32**	$40.74
Weighted average share and exercise price - stock purchase rights plans	**$35.43**	$29.954
Dividend yield	**1.50%**	1.30%
Volatility	**38.16%**	39.34%
Risk-free interest rates	**0.71%**	0.89%
Expected life (years) - stock option plans	**5.91**	5.79
Expected life (years) - stock purchase rights plans	**1**	1
Weighted average fair value of stock options granted during the period	**$11.06**	$13.47
Weighted average fair value of stock purchase rights granted during the period	**$9.43**	$9.70

The expected volatility assumptions are based on the historical volatility of the Expeditors International of Washington's stock. The expected life assumption is primarily based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the corresponding yield curve in effect at the time of grant for U.S. Treasury bonds having the same term as the expected life of the option, i.e. a ten year bond rate is used for valuing an option with a ten year expected life. The expected dividend yield is based on Expeditors International of Washington Inc.'s historical experience. The forfeiture rate used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns.

The total expenses recognised for the period arising from share based payments are as follows:

	2013 £000	2012 £000
Share based payments	**458**	586

21 Ultimate holding company

The company is a subsidiary undertaking of Expeditors International of Washington Incorporated, incorporated in the state of Washington, United States of America.

The largest and smallest group in which the results of the company are consolidated is that headed by Expeditors International of Washington Incorporated. The consolidated financial statements are available to the public and may be obtained from:

Expeditors International of Washington Incorporated
1015 Third Avenue
12th Floor
Seattle, WA 98104
United States of America