

Heathrow (SP) Limited
(Formerly BAA (SP) Limited)
Annual report and financial statements
for the year ended 31 December 2012



Heathrow (SP) Limited (Formerly BAA (SP) Limited)

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Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Business review

Heathrow (SP) Limited (formerly BAA (SP) Limited) (the 'Company') is the holding company of a group of companies that owns Heathrow and Stansted airports 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 15 October 2012 it was announced that the BAA name would cease being used. This change was implemented for a number of reasons including the fact that Heathrow will account for more than 95% of the former BAA group once Stansted is sold. As a result, whilst the brands and related legal entity names (such as Heathrow Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company Limited) of individual airports are being retained, the names of many of the holding companies in the business assumed the Heathrow brand. The change saw BAA (SP) Limited become Heathrow (SP) Limited on 12 October 2012.

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 business review is presented in three sections:

Management review – overview of the year ended 31 December 2012, along with the key factors likely to impact the Group in 2013.

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2012 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 2012

Key features of the year

2012 saw significant progress across a wide range of important issues for the business. This included another year of record passenger satisfaction for Heathrow, as well as delivering an outstanding welcome for thousands of Olympic and Paralympic athletes. This was particularly notable as it was achieved whilst managing record passenger traffic at one of the world's busiest airports.

The year was also notable for progress in the UK hub airport capacity debate, the importance of which is underlined by the fact that in 2012 Heathrow once again operated close to its maximum permitted annual flight numbers. The hub airport model used by Heathrow and its competitors uses transfer passengers to support flights to long haul destinations which would not be viable using local demand alone. But unlike its rivals in France, Germany, the Netherlands and Dubai, Heathrow is full and its capacity constraints prevent any meaningful increase in the numbers of flights and routes. This means that the country's ability to trade with emerging economies is constrained with potential long-term consequences for UK trade, jobs and economic growth.

At the start of 2012, whilst the importance of hub airport capacity was beginning to be accepted by the UK government, a third runway at Heathrow was not one of the options under consideration. However, the year ended with the establishment of an independent commission tasked with looking at options for maintaining the UK's status as an international aviation hub. The Group will make submissions to the Airports Commission during 2013.

After challenging for a number of years the proportionality of the disposal remedies imposed by the Competition Commission resulting from its inquiry into the supply of UK airport services by the Group, a disposal process for Stansted airport commenced in August 2012 which led to the announcement since the period end that the airport is being sold to Manchester Airports Group for £1,500 million.

Work intensified through the year both within Heathrow and in consultation with its airline community and the Civil Aviation Authority on defining how the airport will develop during the next five year regulatory period (Q6), which begins on 1 April 2014. In particular, constructive engagement with Heathrow's airline community assessed key themes such as capital investment, traffic forecasts, operating costs and commercial revenue opportunities. The regulatory engagement process to date culminated with publication since the year end of Heathrow's full business plan for Q6. This period is expected to see Heathrow delivering further significant enhancements to the passenger experience, whilst delivering improved value for money through greater efficiency and productivity and driving further real growth in its commercial offering.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Management review continued

Key features of the year continued

The Group continued to invest significantly in Heathrow's transformation with over £1 billion spent at the airport during 2012. The centrepiece of the investment programme continued to be the construction of the new Terminal 2. Work will intensify during 2013 on fit-out and operational readiness with operations due to commence in little over a year from now. The scale of investment at Heathrow in recent years is underlined by Terminal 2 being the airport's second new terminal in recent years after a gap of over 20 years between the opening of Terminals 4 and 5.

The Group's financing position was transformed in 2012 with over £3 billion raised in multiple capital markets transactions and the successful refinancing of the Group's core revolving credit and liquidity facilities. This marked the culmination of a programme that has seen the Group raise nearly £7 billion since late 2009, enabling full repayment of loan facilities put in place in the 2008 refinancing and putting the Group in its strongest liquidity position for many years. In addition, the Group continued to attract investment from leading global equity investors with a 30% shareholding in the business purchased by Qatar Holding (20%) and China Investment Corporation (10%), the Qatari and Chinese sovereign wealth funds.

At the same time as all the critical initiatives outlined above were delivered, the Group produced a robust financial performance despite the enduring challenges of subdued economic growth and continued pressure on consumer and business confidence in the world's developed economies.

It was against this background, together with the stabilisation of its financing position outlined above, that the Group was able to continue investing in the business with confidence and commence dividend payments to its ultimate shareholders for the first time since it was acquired by the Ferrovial-led consortium in 2006.

Passenger traffic trends

Passenger traffic for the year ended 31 December 2012 at the Group's airports is analysed below.

	Year ended 31 December 2012	Year ended 31 December 2011	Change ¹ (%)
Passengers by airport (millions)			
Heathrow	70.0	69.4	0.9
Stansted	17.5	18.0	(3.2)
Total passengers¹	87.4	87.4	0.0
Passengers by market served (millions)			
UK	5.9	6.2	(3.6)
Europe ²	44.5	44.5	0.1
Long haul	37.0	36.8	0.5
Total passengers¹	87.4	87.4	0.0

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

² Includes North African charter traffic.

In the year ended 31 December 2012, the Group's passenger traffic was flat at 87.4 million. Adjusting for the fact that 2012 was a leap year, there was a modest year on year decline of 0.3%. The performance was driven by Heathrow where passenger traffic was up 0.9% to 70.0 million (2011: 69.4 million), its second successive calendar year traffic record.

Heathrow's traffic in 2012 was characterised by record load factors (75.6% versus 75.2% in 2011) and more seats per passenger aircraft (197.4 versus 194.8 in 2011). These are the key drivers of the modest growth that can be expected in Heathrow's traffic for as long as it operates with its current capacity constraints where there is negligible opportunity to increase flight numbers which, whilst falling marginally to 471,341 compared to 476,197 in 2011, are very close to the cap of 480,000 flights per annum. The proportion of transfer traffic at Heathrow was 35% (2011: 35%).

Whilst underlying demand at Heathrow was firm through 2012, reported performance fluctuated through the year. There was year on year growth in the first quarter but a modest decline in the second quarter, partly reflecting issues such as the leap year and the different timing of Easter relative to 2011. In the third quarter, Heathrow's traffic was impacted in July and August by over 400,000 passengers compared to the same period of 2011 by the London 2012 Olympics, which resulted in UK based travellers staying in the country to enjoy the Games and non-UK travellers avoiding travel to the UK due to concerns over disruption caused by the Games. After that traffic growth resumed with monthly records in September, November and December.

On a regional basis, Heathrow's performance was led by North Atlantic traffic which increased 3.2% to 16.3 million passengers (2011: 15.8 million). Traffic with other long haul destinations declined marginally, down 0.4% to 20.3 million passengers (2011: 20.4 million). Strength in services with Brazil (due to increased services), the Middle East (due partially to recovery from the unrest in the region that impacted 2011) and the Far East (due partly to recovery from 2011's Japanese tsunami) was offset particularly by weakness in African and Indian traffic due to airlines reducing or ceasing services.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Management review *continued*

Passenger traffic trends continued

Heathrow's European traffic increased modestly, up 0.5% to 28.6 million passengers (2011: 28.5 million), with significant variances in performance between markets, reflecting the macro-economic environment across Europe. There was good performance in markets such as Germany, Norway, the Netherlands and Belgium offset by weakness in markets such as Italy, Greece and Portugal. Domestic traffic was up slightly, by 0.5% at 4.7 million passengers (2011: 4.7 million).

Stansted's traffic declined 3.2% to 17.5 million passengers (2011: 18.0 million). The year was notable for a return to growth after the summer following several years of consistent declines. This is reflected in a traffic decline of 4.6% in the nine months to 30 September 2012 turning into an increase of 1.8% in the fourth quarter. This was due to year on year capacity additions by Ryanair for the current winter season. Stansted's core European scheduled market saw traffic decline only 0.3% to 14.1 million passengers (2011: 14.1 million), with 5.3% growth in the fourth quarter. Traffic declines in other markets were driven mostly by cessation of a limited number of services. Stansted's 2012 average load factor was 81.0% (2011: 80.8%).

Transforming the Group's airports

The key strategic objective is for Heathrow to become the UK's direct connection to the world and Europe's hub of choice by making every journey better. A key enabler in delivering these objectives is Heathrow's continued focus on transforming passengers' and airlines' experience of using the airport through both investment in modern terminal facilities and related infrastructure and improving service standards. This will ensure customers enjoy a superior airport experience relative to competitors, encouraging greater utilisation of Heathrow and supporting its long-term growth ambitions.

Significant further progress was made in 2012 in both the transformation of Heathrow's infrastructure and further improving service standards.

The current centrepiece of Heathrow's infrastructure transformation is the construction of the new Terminal 2, which is due to open in mid-2014. Once open, more than 60% of passengers using Heathrow will enjoy some of the newest airport facilities in the world.

Alongside the transformation of Heathrow's infrastructure, there was further clear progress in improving service standards during 2012 with record overall passenger satisfaction achieved, a particularly notable achievement given the Olympics, record traffic volumes and the challenges of building the new Terminal 2 in the live operating environment of one of the world's busiest airports. In addition, Terminal 5 was voted the world's best airport terminal.

Investment in modern airport facilities

Heathrow's capital investment programme achieved a number of significant milestones in 2012 with the main projects including construction work on Terminal 2 as well as the development of baggage systems and a major refurbishment programme at Terminal 4. As expected, investment at Heathrow increased significantly in 2012 (over £1.1 billion) compared to 2011 (over £800 million). The level of investment is expected to continue at an elevated level in 2013 as progress is made towards opening Terminal 2.

The new Terminal 2 building was made weather-tight in early 2012. This enabled significant progress on the terminal fit-out to be completed during the year. By the year end, installation of the internal walls, glass wall linings and conglomerate floor was well underway. In addition, delivery of terminal systems, including outbound baggage systems, escalators and lifts, was making good progress with commissioning of certain elements of the systems underway by year end. Installation of the information control system is now progressing, with IT systems cabling having commenced on all levels of the building and hand over of communications rooms IT fit-out underway.

The second phase of the satellite Terminal 2B was made weather-tight in September 2012. Fit-out is progressing with the creation of internal walls, glass wall linings and the wooden linings to the arrivals corridor and installation of escalators, lifts and travelators. March 2012 saw excavation completed for the extensive basement and tunnel structures to house the tracked transit train and baggage systems that will connect the satellite to the main building once the main terminal's second phase is constructed. The passenger tunnel linking the main building with the satellite is formed with work underway on its fit-out.

Good progress is being made in constructing the 'nodes' to connect the main terminal and satellite buildings to air bridges through which passengers board or leave aircraft.

There has also been significant progress on Terminal 2's multi-storey car park. The main access ramp to the car park's upper level is substantially in place, connecting the car park and existing road network. The structure of the western section of the car park is completed and the eastern section is progressing to plan. The structures for the car park's lifts and staircases as well as passenger walkways between the car park and the terminal building are under construction.

Terminal 2's construction is expected to be completed in late 2013 with operations commencing in mid-2014.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Management review *continued*

Transforming the Group's airports continued

Investment in modern airport facilities continued

In Heathrow's baggage investment programme, the new underground automated baggage transfer system between Terminals 3 and 5 became operational. Elsewhere, the superstructure, roof and cladding for the building to house Terminal 3's new integrated baggage system are virtually complete. Baggage and IT systems are now being installed with the overall system expected to become operational in 2015.

Refurbishment works in Terminal 4's departure lounge were completed in 2012. The project has renewed floor tiling, refurbished gate areas, provided new seating, decluttered signage and provided a feature ceiling with LED lighting reducing energy consumption whilst enhancing the lounge area.

Refurbishment (including resurfacing) of Heathrow's southern runway will start in Spring 2013. The works will be carried out during night closures of the runway. The northern runway will be refurbished in 2014.

Service standards

The Group's focus on delivering transformational change in passengers' experience of its airports continues to receive significant endorsement from the travelling public, demonstrating that passengers are noticing the improvements made by the airports.

In April 2012 Heathrow Terminal 5 was named the world's best airport terminal in the 2012 SKYTRAX World Airport Awards. More recently, Heathrow achieved an all-time record overall passenger satisfaction score of 3.96 in the Airport Service Quality ('ASQ') survey (produced by Airports Council International) for the third quarter of 2012. This reflected in particular the success of the airport in delivering an outstanding welcome for thousands of Olympic and Paralympic athletes. Over 2012 as a whole Heathrow also achieved its highest ever average score of 3.94 (2011 3.88) in the quarterly ASQ surveys.

In relation to individual service standards, punctuality remained at historically high levels in 2012 with 78% (2011 79%) of aircraft departing within 15 minutes of schedule at Heathrow and 88% (2011 88%) at Stansted. Further, Heathrow's baggage misconnect rate was 15 per 1,000 passengers (2011 15).

On security queuing, in 2012 passengers passed through central security within periods prescribed under service quality rebate schemes 92.8% (2011 96.9%) of the time at Heathrow and 98.0% (2011 97.9%) of the time at Stansted. This compares with 95% service standards. Whilst the reduced security queuing performance at Heathrow in 2012 reflected additional security procedures introduced in the fourth quarter of the year, performance has improved since the beginning of 2013.

Sale of Stansted airport

After challenging for a number of years the proportionality of the disposal remedies imposed by the Competition Commission resulting from its inquiry into the supply of UK airport services by the Group, a disposal process for Stansted airport commenced in August 2012 which led to the announcement since the period end that the airport is being sold to Manchester Airports Group for £1,500 million. The sale is expected to complete by the end of February 2013.

Proceeds from the disposal are expected to be used principally to repay debt within the Group.

Regulatory and governmental developments

UK aviation policy developments

The main development in UK aviation policy in the last year related to the debate on hub airport capacity, the importance of which is underlined by the fact that in 2012 Heathrow, the UK's only hub airport, once again operated close to its maximum permitted annual flight numbers. The hub airport model used by Heathrow and its competitors uses transfer passengers to support flights to long haul destinations which would not be viable using local demand alone. But unlike its rivals in France, Germany, the Netherlands and Dubai, Heathrow is full and its capacity constraints prevent any meaningful increase in the numbers of flights and routes. This means the country's ability to trade with emerging economies is constrained, with potential long-term consequences for UK trade, jobs and economic growth.

At the start of 2012, whilst the importance of hub airport capacity was beginning to be accepted by the UK government, a third runway at Heathrow was being excluded as a potential solution. However, during the year the government established the independent Airports Commission, chaired by Sir Howard Davies, which has been tasked with identifying and recommending the options for maintaining the UK's status as an international aviation hub. It is expected to do this by assessing the UK's international connectivity needs and recommending the optimum approach for meeting these.

The Commission is expected to produce an interim report by the end of 2013 which will set out its assessment of the evidence on the nature, scale and timing of the steps needed to maintain the UK's global hub status, and its recommendations for immediate actions to improve the use of existing runway capacity in the next five years consistent with credible long term options. A final report is then expected by summer 2015 which will set out the Commission's assessment of the options for meeting the UK's international connectivity needs, including their economic, social and environmental impact and its recommended solution.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Management review continued

Regulatory and governmental developments continued

UK aviation policy developments continued

The Group will make submissions to the Airports Commission during 2013

Defining Heathrow's development for the next 5 years

Work intensified through the year within Heathrow and in consultation with its airline community and the Civil Aviation Authority ('CAA') on defining how the airport will develop during the next five year regulatory period (Q6), which begins on 1 April 2014

In particular, constructive engagement with Heathrow's airline community assessed key themes such as capital investment, traffic forecasts, operating costs and commercial revenue opportunities. The regulatory process also included publication in July 2012 of the airport's initial business plan for Q6, the content of which has been superseded since the year end by the publication of an updated full business plan. Since publication of the initial business plan, Heathrow has reduced the expected cost of airlines operating at Heathrow during Q6 primarily by identifying further opportunities to enhance efficiencies and productivity. This is reflected in a proposed tariff profile, assuming no initial adjustment for the significantly lower than forecast passenger numbers at the end of the current regulatory period, of RPI+5.9% compared to RPI+6.8% in the initial business plan.

The next regulatory period is expected to see Heathrow delivering further significant enhancements to the passenger experience, whilst delivering improved value for money for example through greater efficiency and productivity and driving further real growth in its commercial offering.

Heathrow's full business plan includes a traffic forecast consistent with that in the July 2012 initial business plan showing modestly increasing passenger traffic over the next regulatory period that, after an allowance for shocks, averages around the airport's current un-shocked traffic performance. Heathrow believes it is essential to properly reflect the likely impact on passenger traffic over any medium or long-term horizon from potential shocks given that historically they have impacted its traffic by an average of close to 1.5%.

The full business plan also outlines Heathrow's proposed capital investment plan ('CIP') for 2014-2019. The CIP is aligned to Heathrow's masterplan that envisages the continuation of the process of building terminal and satellite capacity perpendicular to the airport's two runways that started with construction of Terminal 5 and is currently also being implemented in the new Terminal 2. The CIP foresees continued passenger experience improvements, ensuring there are sufficient facilities to handle expected growth in passenger numbers and aircraft size and enabling a competitive cost of operation at Heathrow based on a capital spend over the 5 years of approximately £3 billion (in 2011/12 prices).

The key elements of the CIP relate to the new Terminal 2, the Terminal 3 integrated baggage system, Heathrow's financial contribution to Crossrail (subject to regulatory approval), installation of new baggage screening technology required by 2018 and upgrades and resurfacing of runways and taxiways.

Terminal 2 is expected to open in the early months of Q6 and will involve a significant number of airline moves. In the first part of Q6, it is expected that the pier that currently connects Terminal 1 to the Terminal 2 satellite building will be demolished, opening up the taxiway between Terminal 2 and its satellite building. This will also enable two extra pier served stands to be added to the satellite building.

Towards the end of Q6, the CIP assumes that work will commence on design, site clearance and enabling works for phase 2 of Terminal 2. This phase is expected ultimately to involve the demolition of Terminal 1, extension of the main terminal building, construction of a new satellite Terminal 2C, installation of a terminal baggage system and completion of tracked transit train and baggage facilities linking the main terminal building with the satellites.

Following publication of the full business plan, the next steps in the regulatory review process are for the CAA to complete its own research and analysis, following which it is expected to publish its initial price cap proposals in April 2013 for consultation. Final price cap proposals are expected to be published in October 2013.

Modernising the economic regulation of UK airports

The new Civil Aviation Act 2012 ('the Act') became law at the end of 2012 when it received Royal Assent and replaced the Airports Act 1986 as the key piece of legislation relating to the economic regulation of UK airports. The Act introduces a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate by promoting effective competition. This primary duty is supported by various supplementary duties including to ensure an efficient airport operator is able to finance the activities that are subject to the relevant licence obligations.

The Act will also bring into effect an economic licensing regime for airports similar to the regulatory framework in place in certain other regulated sectors such as water and energy. As a regulated airport, Heathrow will require a licence and initial licences will be issued by the CAA.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Management review *continued*

Regulatory and governmental developments continued

Modernising the economic regulation of UK airports continued

The licensing regime is currently being developed, with Heathrow's initial draft licence due to be published by the CAA in April 2013 for consultation alongside its publication of initial price cap proposals for Q6. The licence is expected to include scope for financial penalties, for example, in the event of a breach of certain licence conditions. Heathrow is also expected to be obliged to consult stakeholders on future plans for investment and operation of the airport, to report on environmental performance, to comply with service standards and other conditions and measures designed to ensure the effective economic regulation of the airport.

The licensing regime is also expected to include conditions relating to licensed airports' financial resilience, for example a minimum credit rating requirement, consistent with the themes proposed by the Department for Transport in 2009.

Developments since beginning of 2013

In January 2013, the sale of Stansted airport was announced to Manchester Airports Group for £1,500 million. For more information see 'Sale of Stansted airport' above.

In addition, in January 2013 Heathrow's passenger traffic increased 0.3% to 5.18 million (2012: 5.17 million), an all time record for the month.

Outlook

This year is expected to see strong growth in Heathrow's turnover, Adjusted EBITDA and operating cash flow driven principally by increased aeronautical tariffs. Heathrow also intends to make significant progress in completing the new Terminal 2 with construction due to be complete by the end of 2013 and the terminal becoming operational in mid-2014.

Passenger traffic in early 2013 has been consistent with expectations with record traffic at Heathrow in January. Therefore at this early stage of the year, the outlook for the Group's financial performance in 2013 remains consistent with guidance in the Investor Report issued in December 2012.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review

Introduction

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

Basis of preparation of statutory results

Heathrow (SP) Limited is the holding company of a group of companies that owns Heathrow and Stansted airports 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

The profit and loss account below provides more detailed disclosure than the statutory format on page 25 in order to enable a better understanding of the results of the Group's operations

Summary performance

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Group turnover	2,464 0	2,280 0	8 1
Adjusted operating costs ¹	(1,200 1)	(1,147 9)	4 5
Adjusted EBITDA²	1,263 9	1,132 1	11 6
Operating costs – exceptional - pensions	(182 3)	(40 3)	352 4
Operating gain – exceptional - other	-	0 2	(100 0)
EBITDA	1,081.6	1,092 0	(1 0)
Depreciation – ordinary	(510 5)	(508 9)	0 3
Depreciation and impairment – exceptional	-	(11 0)	(100 0)
Operating profit	571.1	572 1	(0 2)
Impairment of fixed assets – exceptional	(5 1)	-	n/a
(Loss)/gain on disposal of airports	(4 2)	7 9	n/a
Net interest payable and similar charges	(707 0)	(789 9)	(10 5)
Fair value gain/(loss) on financial instruments	112.4	(45 9)	n/a
Net interest payable and similar charges	(594 6)	(835 8)	(28 9)
Loss on ordinary activities before taxation	(32 8)	(255 8)	(87 2)
Tax (charge)/credit on loss on ordinary activities	(8 1)	64 3	n/a
Loss on ordinary activities after taxation	(40 9)	(191 5)	(78 6)

¹ Adjusted operating costs are stated before depreciation, amortisation and exceptional items

² Adjusted EBITDA is earnings before interest tax depreciation and amortisation and exceptional items

Turnover

In the year ended 31 December 2012, turnover increased 8 1% to £2,464 0 million (2011 £2,280 0 million). This reflects increases of 10 7%, 4 5% and 5 0% in aeronautical, retail and other income respectively

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Aeronautical income	1,413 0	1,276 4	10 7
Retail income	541 7	518 6	4 5
Other income	509 3	485 0	5 0
Total turnover	2,464 0	2,280 0	8 1

Aeronautical income

In the year ended 31 December 2012, aeronautical income increased 10 7% to £1,413 0 million (2011 £1,276 4 million) and average aeronautical income per passenger increased 10 7% to £16 16 (2011 £14 60)

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review continued

Turnover continued

Aeronautical income continued

Aeronautical income summary (by airport)

	Aeronautical income			Per passenger ¹		
	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %	Year ended 31 December 2012 £	Year ended 31 December 2011 £	Change %
Heathrow	1,279.7	1,149.6	11.3	18.29	16.57	10.4
Stansted	133.3	126.8	5.1	7.64	7.03	8.7
Total	1,413.0	1,276.4	10.7	16.16	14.60	10.7

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

At Heathrow, the growth primarily reflected the headline 12.2% and 12.7% tariff increases from 1 April 2011 and 1 April 2012 respectively supported by the modest increase in passenger traffic. This has been partially offset by lower than expected yields particularly due to factors such as more quieter aircraft, a higher proportion of transfer passengers and a lower contribution from aircraft parking charges than assumed when tariffs were set. These factors led to aeronautical income being approximately £40 million lower than expected in the year ended 31 December 2012. This shortfall (or yield dilution) will be recovered through the 'K factor' true-up mechanism in the years commencing 1 April 2013 and 1 April 2014.

At Stansted, growth in aeronautical income reflected the headline 6.33% and 6.83% tariff increases from 1 April 2011 and 1 April 2012 respectively together with reduced tariff discounts, partially offset by lower traffic.

The headline maximum allowable yield at Heathrow will increase by 10.4% from 1 April 2013.

Retail income

The Group's retail business enjoyed another good year in 2012 with a 4.4% increase in net retail income per passenger to £5.82 (2011: £5.58) driving 4.5% growth in retail income to £541.7 million (2011: £518.6 million).

By category the performance was led by duty and tax-free, airside specialist shops, bureaux de change and catering whilst by airport the Group's performance was driven by Heathrow.

The table below reconciles retail income with net retail income and net retail income per passenger.

Reconciliation of gross retail income with net retail income and net retail income per passenger

	Year ended 31 December 2012	Year ended 31 December 2011	Change %
Retail income (£m)	541.7	518.6	4.5
Retail expenditure (£m)	(32.8)	(31.0)	5.8
Total net retail income (£m)	508.9	487.6	4.4
Passengers (million) ¹	87.4	87.4	0.0
Net retail income per passenger – total^{1,2}	£5.82	£5.58	4.4
Net retail income per passenger – Heathrow ^{1,2}	£6.21	£5.95	4.4
Net retail income per passenger – Stansted ^{1,2}	£4.27	£4.16	2.8

¹ Percentage change calculated using un-rounded passenger and net retail income per passenger numbers

² Net retail income per passenger calculated using un-rounded passenger numbers

Heathrow's retail income increased 5.7% to £460.1 million (2011: £435.4 million) and NRI per passenger increased 4.4% to £6.21 (2011: £5.95). The underlying growth in Heathrow's net retail income per passenger was slightly higher (around 5.5%) after adjusting for one-off benefits and Olympic-related income.

Heathrow's duty and tax-free and airside specialist shops continued to see increases in the average spend of passengers purchasing items in the in-terminal retail facilities. This was driven by factors including an increased proportion of higher spending non-EU passengers, refurbishment of Terminal 3's airside shops and enhancements to World Duty Free's stores in Terminals 3 and 4. In airside specialist shops, trading was particularly buoyant in the luxury and fashion segments.

A strong performance in bureaux de change at Heathrow was due primarily to improvements in contract terms with business partners. Catering income grew well ahead of passenger growth due to rebalancing of the portfolio towards premium outlets, enhanced contractual terms and a general focus on speed and quality of service. Finally in advertising, income growth was due to Olympic related sales.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review continued

Turnover continued

Retail income continued

Stansted's retail income decreased 1.9% to £81.6 million (2011 £83.2 million), outperforming the 3.2% decline in Stansted's passenger traffic. Combined with retail expenditure reducing to £7.0 million (2011 £8.2 million), this resulted in NRI per passenger increasing 2.8% to £4.27 (2011 £4.16). Catering, landside shops and bookshops and other retail income increased year on year although this was more than offset by declines elsewhere, particularly in car parking and duty and tax-free.

Other income

Income from activities other than aeronautical and retail increased 5.0% to £509.3 million (2011 £485.0 million). This was driven particularly by operational facilities and utilities income increasing 9.6% to £173.0 million (2011 £157.8 million) due mainly to higher demand, back billing and increases in tariffs for electricity. The increase in other income also reflected rail income increasing 4.4% to £116.0 million (2011 £111.1 million) and recovery of Olympics baggage related costs.

Adjusted operating costs

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

In the year ended 31 December 2012, adjusted operating costs increased 4.5% to £1,200.1 million (2011 £1,147.9 million).

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Employment costs	369.5	339.1	9.0
Maintenance expenditure	149.5	137.0	9.1
Utility costs	109.0	110.8	(1.6)
Rents and rates	143.6	129.4	11.0
General expenses	246.0	232.7	5.7
Retail expenditure	32.8	31.0	5.8
Intra-group charges/other	149.7	167.9	(10.8)
Total	1,200.1	1,147.9	4.5

On an underlying basis, there was strong discipline in controllable costs given the impact on reported adjusted operating costs of Olympic-related activities, higher pension-related charges and the full year effect of additional infrastructure (Terminal 5C). In addition, the Group had to absorb contractual inflation adjustments to the costs of provision to the business of various services.

There were approximately £25 million in Olympic-related costs (approximately £16 million net of revenue benefits) such as the costs of Heathrow's temporary Olympic terminal, professional consultants, baggage, uniforms and staff bonuses and overtime costs.

Whilst reported employment costs were up 9.0%, adjusting for factors such as higher non-cash defined benefit pension service charges and one-off costs related to the Olympics, they increased by around 5%. Increased maintenance expenditure was mainly due to the cost of the temporary Olympic terminal at Heathrow and the impact of adverse winter weather in February 2012. Increases in rents and rates were driven primarily by inflation-linked increases in property rates and additional rateable property such as Terminal 5C that was only open for part of the comparative period. The growth in general expenses reflected increases across a range of areas including air traffic control, insurance, cleaning, service quality rebates and the Olympics. Partially offsetting these increases were reduced intra-group charges, particularly reflecting success in reducing central services costs.

The year on year increase in adjusted operating costs moderated significantly through the year with an 8.1% increase at the half year turning into a 4.5% increase for the full year. Outturn costs for the year were also lower than earlier expectations. These trends reflected particularly larger than expected reductions in intra-group charges.

Adjusted EBITDA

In the year ended 31 December 2012, Adjusted EBITDA increased 11.6% to £1,263.9 million (2011 £1,132.1 million), resulting in an Adjusted EBITDA margin of 51.3% (2011 49.7%).

The significant increase in Adjusted EBITDA from 2011 reflects the effect of achieving turnover growth of 8.1% whilst limiting the increase in adjusted operating costs to 4.5%.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review *continued*

Adjusted EBITDA *continued*

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 11.9% to £1,169.7 million (2011: £1,045.1 million). The significant increase in Heathrow's Adjusted EBITDA reflects the factors referred to above in relation to the growth in the Group's Adjusted EBITDA. Stansted's Adjusted EBITDA increased 8.3% to £94.2 million (2011: £87.0 million) due principally to increased aeronautical income, driven by higher tariffs partially offset by reduced passenger traffic, resulting in an overall increase in its revenues whilst operating costs were held flat year on year.

Operating profit

The Group recorded an operating profit for the year ended 31 December 2012 of £571.1 million (2011: £572.1 million). The difference between Adjusted EBITDA and operating profit results from £510.5 million in depreciation (2011: £508.9 million) and a £182.3 million exceptional charge (2011: £51.1 million). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Adjusted EBITDA	1,263.9	1,132.1	11.6
Depreciation	(510.5)	(508.9)	0.3
Exceptional items – pensions	(182.3)	(40.3)	352.4
Exceptional items – accelerated depreciation and impairment	-	(11.0)	n/a
Exceptional items – other	-	0.2	n/a
Operating profit	571.1	572.1	(0.2)

Depreciation

Depreciation for the year ended 31 December 2012, excluding exceptional charges, was 0.3% higher at £510.5 million (2011: £508.9 million).

Exceptional items – pensions

Items within operating profit include a £182.3 million non-cash pension related charge (2011: £40.3 million). This includes the Group's share of the movement in LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

Exceptional items – accelerated depreciation and impairment

The accelerated depreciation and impairment charge of £11.0 million in 2011 was in relation to an impairment charge on the Airtrack rail project which the Group decided not to pursue.

Exceptional items – other

The £0.2 million credit in 2011 was due to the release of provisions that were no longer required.

Exceptional impairment of fixed assets

In the year ended 31 December 2012, an impairment of £5.1 million was recognised at Heathrow as a result of a change in the expected future use of automated immigration systems in advance of their anticipated sale. This accounting charge is not expected to have an impact on these costs remaining in the airport's regulatory asset base.

(Loss)/gain on disposal of airports

In the year ended 31 December 2012, £4.2 million of disposal costs were incurred, £0.1 million of which was Gatwick related and £4.1 million Stansted related. Stansted disposal costs related to legal fees and other separation costs. During 2011, £7.9 million excess provisions for Gatwick disposal costs were released to the profit and loss account and related to legal fees and other separation costs.

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'.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review *continued*

Taxation

The tax charge recognised for the year ended 31 December 2012 was £8.1 million (2011 £64.3 million tax credit). Based on a loss before tax for the period of £32.8 million (2011 £255.8 million), this results in a negative effective tax rate of 24.7% (2011 effective tax rate of 25.1%).

Excluding the impact of the change in tax rate, the tax charge recognised for the year on ordinary activities of £28.5 million (2011 £40.3 million credit) results in a negative effective tax rate of 86.9% (2011 effective tax rate of 15.8%). The tax charge for the year is more than the credit implied by the statutory rate of 24.5% (2011 26.5%) primarily due to permanent differences arising from non-qualifying depreciation. Refer to Note 5 of the Group financial statements.

The Finance Act 2012 enacted a reduction in the main rate of UK corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013. As a result, the Group's deferred tax balances, which were previously provided at 25%, have been re-measured at the rate of 23%. This has resulted in a reduction in the net deferred tax liability of £9.8 million, with £20.4 million credited to the profit and loss account and £10.6 million charged to reserves.

Summary cash flow

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Net cash inflow from operating activities	1,163.7	1,132.2
Net interest paid	(427.9)	(388.8)
Taxation – group relief paid	(28.3)	(27.2)
Cash flow after interest and tax	707.5	716.2
Net capital expenditure	(1,157.0)	(864.7)
Disposal of subsidiaries	(5.3)	(6.1)
Dividends paid	(436.0)	(24.8)
Net cash outflow before use of liquid resources and financing	(890.8)	(179.4)
Management of liquid resources	(11.5)	20.0
Cancellation and restructuring of derivatives	(75.9)	(114.4)
Settlement of accretion on index-linked swaps	(80.0)	(15.0)
Increase in amount owed to Heathrow Finance plc	269.9	31.8
Movement in borrowings and other financing flows ¹	781.7	263.1
(Decrease)/increase in cash	(6.6)	6.1

¹ Refer to the Consolidated cash flow statement in the Group financial statements for further details.

Cash flow from operating activities

Net cash inflow from operations in the year ended 31 December 2012 increased 2.8% to £1,163.7 million (2011 £1,132.2 million) which compares with Adjusted EBITDA of £1,263.9 million (2011 £1,132.1 million). The reduced conversion of Adjusted EBITDA to operating cash flow compared to 2011 reflects three factors: the absence of the exceptional £47.2 million working capital benefit recorded in 2011, a larger difference between the cash contributions to the defined benefit pension scheme and the net service charge to the profit and loss account and a stronger underlying working capital performance in 2011.

Capital expenditure

In the year ended 31 December 2012, the cash flow impact of the Group's capital investment programme was £1,157.0 million (2011 £864.7 million) with £1,141.0 million (2011 £843.8 million) at Heathrow and £16.0 million (2011 £20.9 million) at Stansted.

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

Restricted payments/dividends

In the year ended 31 December 2012, there was a net £385.7 million of restricted payments made out of the Group. This was implemented by £436.0 million in dividend payments, other inter-company loan interest of £48.7m with the remaining cash of £99.0 million returned back to the group. Of the £385.7 million, £39.4 million was utilised to make interest payments on Heathrow Finance plc's ('Heathrow Finance') external debt financing and £346.3 million to make distributions beyond Heathrow Finance which, together with other cash within the Heathrow Airport Holdings Limited (formerly BAA Limited) group, was utilised in paying both accrued and current interest on the facility held at ADI Finance 1 Limited and making £240.0 million in dividend payments to the Group's ultimate shareholders.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review *continued*

Pension scheme

At 31 December 2012, the LHR Airports Limited defined benefit pension scheme had a deficit of £103.3 million as measured under FRS 17, of which £92.0 million was attributable to the Group under its shared services agreement with LHR Airports Limited. This compares with a scheme surplus of £38.7 million at 31 December 2011 of which £32.5 million was attributable to the Group. The change from a scheme surplus to a deficit is due principally to a fall in the net discount rate applied to the scheme liabilities.

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 out of which £24 million relate to the deficit recovery that became effective from 1 January 2012. Following the disposal of Edinburgh Airport Limited, the schedule of cash contributions has been reduced to £94 million per annum from January 2013 to December 2014. All but approximately £9.7 million of the new annual amount will be met by the Group's airports.

Net debt and liquidity

The analysis below focuses on the Group's external debt and excludes the debenture between Heathrow (SP) Limited ('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 2012, the Group's nominal net debt increased 8.8% to £11,359.5 million at 31 December 2012 from £10,442.6 million at 31 December 2011. The increase in net debt primarily reflects three factors: funding of capital investment at Heathrow, making the payments referred to in 'Restricted payments/dividends', and inflation accretion on the Group's index-linked swaps and bonds.

The Group's nominal net debt at 31 December 2012 comprised £10,239.8 million under bond issues, £307.0 million under the Group's revolving credit facility, £404.5 million under other loan facilities, £444.7 million in index-linked derivative accretion and cash at bank and term deposits of £36.5 million (compared with cash and current asset investments of £38.1 million shown on the balance sheet). Nominal net debt comprised £9,809.5 million in senior net debt and £1,550.0 million in junior debt.

The accounting value of the Group's net debt at 31 December 2012 was £10,852.0 million (2011: £10,254.4 million).

The average cost of the Group's external gross debt at 31 December 2012 was 4.24% (2011: 4.17%) 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 2012 was 5.83% (2011: 6.45%). The decrease in the average cost of debt (including index-linked accretion) is mainly due to lower inflation at 31 December 2012 than at 31 December 2011.

At 31 December 2012, the Group had approximately £1.7 billion in undrawn bank facilities and cash resources. Since the beginning of 2013, the Group has announced the sale of Stansted airport which is expected to generate significant net proceeds to the Group. 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 restricted payments, until mid-2015.

Recent financing activity

The Group's financing position was transformed in 2012 with over £3 billion raised in multiple capital markets transactions and the successful refinancing of the Group's core revolving credit and liquidity facilities. This marked the culmination of a programme that has seen the Group raise nearly £7 billion since late 2009, enabling full repayment of loan facilities put in place in the 2008 refinancing and putting the Group in its strongest liquidity position for many years.

Eleven capital markets transactions were completed by the Group in 2012 across a range of currencies, ratings levels and formats with highlights including £1 billion in Class B issuance through two transactions – a £600 million twelve year bond and a £400 million eight year bond. There were also debut offerings in both Swiss francs (CHF400 million five year Class A bond) and Canadian dollars (C\$400 million seven year Class A bond). Other notable Class A transactions included a €700 million five year bond, a £180 million ten year index-linked single investor private placement and a US\$500 million three year bond that builds on the Group's presence in the US market established in 2011.

In 2012, the Group also completed the refinancing of its revolving credit and liquidity facilities. The new facilities were well oversubscribed with approximately £4 billion of commitments from 17 existing and new relationship banks from across the globe. This enabled the size of the new facilities to be increased to £2.75 billion. They comprise a £2.0 billion revolving credit facility (split £1.5 billion Class A and £400 million Class B general purposes facilities, and £100 million Class A working capital facility), and £750 million standby liquidity facilities. The new facilities mature in June 2017 and the Class A and B tranches of the revolving credit facility carry margins of 150 basis points and 225 basis points respectively.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review *continued*

Recent financing activity *continued*

The financing programme implemented over the last 3 years has transformed the financing position of the Group. Recent progress is evident from the fact that between 31 December 2011 and 31 December 2012 the Group has diversified its sources of funding in the bond markets from three currencies to five, increased the average life of its external debt from 9.8 years to 10.1 years and reduced the amount of debt falling due within 3 years from £3.7 billion to £1.8 billion.

The Group expects the scale and focus of its capital markets activities to evolve going forward. In particular, it expects funding requirements to moderate materially, to an average of less than £1.5 billion per annum, over the coming years. This reflects the repayment of loan facilities referred to above as well as an expectation of both a more moderate capital programme and continued increases in operating cash flow at Heathrow through to the end of its next regulatory period in 2019. The proceeds from the sale of Stansted will reduce financing needs even further over the next 12 months.

Regulatory Asset Base ('RAB')

Set out below are RAB figures for Heathrow and Stansted at 31 December 2011 and 31 December 2012. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	Stansted £m	Total £m
31 December 2011	12,490.2	1,359.5	13,849.7
31 December 2012	13,471.0	1,342.7	14,813.7

The increase in the total RAB during the year ended 31 December 2012 reflected capital expenditure of approximately £1,180 million, inflation indexation of around £435 million, offset by regulatory depreciation of around £605 million, RAB profiling adjustments of around £45 million, and a modest amount of disposals.

Net interest payable and net interest paid

In the year ended 31 December 2012, the Group's net interest payable was £707.0 million (2011: £789.9 million) excluding fair value gains and losses on financial instruments. Underlying net interest payable was £761.9 million (2011: £764.6 million), after adjusting for £100.0 million (2011: £27.1 million) in capitalised interest and £45.1 million (2011: £52.4 million) in non-cash amortisation of financing fees and bond fair value adjustments. The slight decrease in underlying interest payable in 2012 primarily reflected lower accretion on index-linked instruments due to lower inflation and increased interest receivable due to a higher average amount of index-linked swaps largely offset by the effect of the increase in net debt.

Within interest payable is also recorded a non-cash net fair value gain on financial instruments of £112.4 million (2011: £45.9 million loss).

Net interest paid in the year ended 31 December 2012 was £427.9 million (2011: £388.8 million). This consisted of £379.2 million (2011: £347.2 million) paid in relation to external debt and £48.7 million (2011: £41.6 million) paid under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid is due primarily to the overall increase in net debt and timing differences.

Net interest paid is lower than net interest payable primarily due to an amortisation charge of £38.3 million (2011: £62.1 million) in net interest payable relating to prepayments of derivative interest made in earlier periods and a £190.6 million (2011: £247.2 million) non-cash charge relating to accretion on index-linked instruments. This is partially offset by the net effect of capitalised interest and the non-cash amortisation of financing fees and bond fair value adjustments.

Financial ratios

The Group continues to operate comfortably within required financial ratios.

At 31 December 2012, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 66.2% and 76.7% respectively (2011: 68.0% and 75.4% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. The increase in the Group's junior gearing ratios since 31 December 2011 was primarily due to the increase in net debt discussed in 'Net debt and liquidity'.

In the year ended 31 December 2012, the Group's senior and junior interest cover ratios (the ratio of cashflow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.62x and 2.30x respectively (2011: 2.76x and 2.34x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Cash exceptional items excluded in determining 2011 interest cover ratios included a one-off working capital benefit of £47.2 million (see Note 25). In addition, in 2011 and 2012 there were reorganisation cash costs of £4.7 million and £3.9 million respectively.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Financial review *continued*

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 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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Internal controls and risk management

Internal control and risk management are key elements of the Heathrow Airport Holdings Limited group's (the 'Heathrow Airport Holdings Group') corporate operations of which the Group forms part. Risk is centrally managed for the Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to the Accounting policies). In addition, the Group has a fully dedicated senior team at each of its airports which implements and manages risk closely, following the Heathrow Airport Holdings Group's guidelines. 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 the Company'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 has updated its approach to risk management and issued a new risk management policy. 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 make informed 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 reports to the AC, the management reporting processes and a specialist compliance audit function which reports directly to the Sustainability and Operational Risk Committee.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

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 remains 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 UK Border Force building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment

Regulatory environment, legal and other reputational risks

Civil Aviation Authority ('CAA') economic regulation

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

Part of the regulatory framework is the Group's engagement with its airline customers. In order to manage the risk of adverse airline relations, all airlines are invited to be represented on engagement fora – eg joint steering groups. When feedback is sought or processes are measured, robust processes have been put in place to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their on-going requirements are articulated and understood

Competition rules

The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the 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 the Group's airports 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 and 35 million at Heathrow and Stansted respectively

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

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

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 the normal operations of the Group's airports 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 Group's airports. 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.

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to 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 pay negotiations are planned for January 2014. 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 the UK Border Force.

Treasury

The Board approves prudent treasury policies and delegates certain responsibilities to senior management who 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 Group are

(a) Interest rates

The Group maintains a mix of fixed and floating rate debt. As at 31 December 2012, fixed rate debt after hedging with derivatives represented 80% of the Group's total external nominal debt.

(b) Inflation

The 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.

(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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Internal controls and risk management *continued*

Risk management *continued*

Commercial and financial risks *continued*

Treasury *continued*

(d) Funding and liquidity

The 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 Audit Committee, 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 2012, the Group's cash and current asset investments were £38.1 million, undrawn headroom under revolving credit facilities was £1,693.0 million and undrawn headroom under liquidity facilities was £750.0 million.

(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

15 February 2013

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

Principal activities

The principal activity of Heathrow (SP) Limited is as the holding company of Heathrow (AH) Limited, owner of the designated airports (Heathrow and Stansted airports) 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 reported in the Business review on pages 2 to 19

Results and dividends

The loss after taxation for the financial year amounted to £40.9 million (2011: £191.5 million)

On 21 June 2012 the shareholders and directors of Heathrow Airport Limited approved a capitalisation of the revaluation reserve of £718,000,000 reducing the revaluation reserve and increasing share capital to enable a share capital reduction and payment of dividends

Dividends of £436.0 million were paid during the year (2011: £24.8 million)

The statutory results for the year are set out on page 25

Directors

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

Jose Leo	
Frederick Maroudas	Resigned 8 October 2012
Andrew Efiog	Appointed 8 October 2012

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, while collective consultation takes place with the unions such as Unite and Prospect for a proportion of employees. 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 7 days purchases outstanding at 31 December 2012 (2011: 28 days) based on the average daily amount invoiced by suppliers during the year

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Directors' report continued

Donations

The Group's charitable donations for the year amounted to £1,242,560 (2011 £1,013,000). The main beneficiaries of charitable donations, the relevant amounts donated and the main activities of these beneficiaries are as follows:

Hillingdon Communities Trust	£1,000,000	Heathrow Airport Limited has made a 15 year commitment 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.
Independent Transport Commission	£50,000	Researches the economic, social and environmental aspects of transport and travel providing insight and analysis on the long-term strategic issues that may face the Heathrow airport.
MacMillan Cancer Support	£30,600	Supports individuals in the fight against cancer providing financial and emotional support while hosting national fundraising and awareness events.
Heathrow Travel-care	£12,000	Provides counselling or assistance to passengers and airport staff.

In addition to the donations above, the Heathrow Airport Holdings Group contributes to a number of charitable causes through Communities Trust, in 2012 £750,000 was allotted to the fund.

The Group may incur expenditure which could be classified as political donations under the Political Parties, Elections and Referendums Act 2000 and Part 14 of the Companies Act 2006. The Group obtained a renewed shareholders' approval in February 2012 to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years. In the Group's view there was no expenditure in the year to 31 December 2012 (2011 £nil) that falls within this category.

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 16 to 19 in the Internal controls and risk management section of the Business review.

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 18 and 19 in the Internal controls and risk management section of the Business review.

Post balance sheet events

After challenging for a number of years the proportionality of the disposal remedies imposed by the Competition Commission resulting from its inquiry into the supply of UK airport services by the Group, a disposal process for Stansted airport commenced in August 2012 which led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million. The sale is expected to complete by the end of February 2013.

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(4) of the Companies Act 2006, an ordinary resolution was made by the directors to appoint Deloitte LLP as auditor of the Company for the year ended 31 December 2012.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

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 Léo
Director

15 February 2013

Company registration number 06458621

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group 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 judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

15 February 2013

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

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 2012 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 funds, the Consolidated balance sheet, the Consolidated cash flow statement, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 28. 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. 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 2012 and of its loss 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

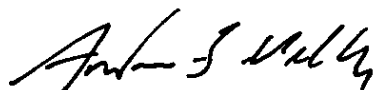
Matters on which we are required to report by exception

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 2012.



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

15 February 2013

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Consolidated profit and loss account for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Turnover	1	2,464 0	2,280 0
Operating costs – ordinary	2	(1,710 6)	(1,656 8)
Operating costs – exceptional pensions	3	(182 3)	(40 3)
Operating costs – exceptional other	3	-	(10 8)
Total operating costs		(1,892 9)	(1,707 9)
Total operating profit	1	571.1	572 1
Impairment of fixed assets – exceptional	3	(5 1)	-
(Loss)/gain on disposal of airports	3	(4.2)	7 9
Interest receivable and similar income	4	249 7	220 4
Interest payable and similar charges	4	(956 7)	(1,010 3)
Fair value gain/(loss) on financial instruments	4	112 4	(45 9)
Net interest payable and similar charges	4	(594 6)	(835 8)
Loss on ordinary activities before taxation		(32 8)	(255 8)
Tax (charge)/credit on loss on ordinary activities	5	(8 1)	64 3
Loss on ordinary activities after taxation	22	(40 9)	(191 5)

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

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Consolidated statement of total recognised gains and losses for the year ended 31 December 2012

		Year ended 31 December 2012	Year ended 31 December 2011
	Note	£m	£m
Loss for the financial year	22	(40.9)	(191.5)
Unrealised gain on revaluation of investment properties	19	37.9	43.5
Losses on cash flow hedges taken directly to equity	21	(62.9)	(290.2)
Deferred tax credit arising on cash flow hedge taken directly to equity	21	3.9	68.6
		(21.1)	(178.1)
Total recognised losses for the year		(62.0)	(369.6)

Consolidated reconciliation of movements in shareholder's funds for the year ended 31 December 2012

		Year ended 31 December 2012	Year ended 31 December 2011
	Note	£m	£m
Loss for the financial year	22	(40.9)	(191.5)
Other recognised losses relating to the year (net)		(21.1)	(178.1)
Dividends paid	22	(436.0)	(24.8)
Net movement in shareholder's funds		(498.0)	(394.4)
Opening shareholder's funds		241.5	635.9
Closing shareholder's (deficit)/funds		(256.5)	241.5

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Consolidated balance sheet as at 31 December 2012

	Note	31 December 2012 £m	31 December 2011 £m
Fixed assets			
Tangible fixed assets	6	12,961 1	12,160 5
Financial assets – derivative financial instruments	14	305 8	369 1
Total fixed assets		13,266 9	12,529 6
Current assets			
Stocks	7	8 9	8 0
Debtors	8	312 9	305 9
Financial assets – derivative financial instruments	14	0 4	170 9
Current asset investments	9	32 5	21 0
Cash	10	5 6	12 2
Total current assets		360 3	518 0
Current liabilities			
Creditors amounts falling due within one year	11	(1,231 3)	(1,553 2)
Net current liabilities		(871 0)	(1,035 2)
Total assets less current liabilities		12,395 9	11,494 4
Creditors amounts falling due after more than one year	12	(12,427 4)	(11,096 0)
Deferred tax	15	(103 3)	(123 1)
Provisions for liabilities	16	(121 7)	(33 8)
Net (liabilities)/assets	1	(256 5)	241 5
Capital and reserves			
Called up share capital	17	11 0	11 0
Share premium reserve	18	499 0	499 0
Revaluation reserve	19	835 4	1,514 4
Merger reserve	20	(4,535 6)	(4,535 6)
Fair value reserve	21	(455 3)	(396 3)
Profit and loss reserve	22	3,389 0	3,149 0
Total shareholder's (deficit)/funds	1	(256 5)	241 5

The financial statements of Heathrow (SP) Limited (Company registration number 06458621) were approved by the Board of Directors and authorised for issue on 15 February 2013. They were signed on its behalf by



José Leo
Director



Andrew Efiang
Director

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Consolidated cash flow statement for the year ended 31 December 2012

		Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
	Note		
Net cash inflow from operating activities	25	1,163 7	1,132 2
Return on investment and servicing of finance			
Interest received		0 3	0 4
Interest paid		(428 2)	(389 2)
Net cash outflow from returns on investments and servicing of finance		(427 9)	(388 8)
Taxation – group relief paid		(28 3)	(27 2)
Capital expenditure			
Net cash outflow for capital expenditure		(1,157 0)	(864 7)
Acquisitions and disposals			
Disposal of subsidiary – proceeds	3	(4 2)	-
Disposal of subsidiary – pension and disposal costs		(1 1)	(6 1)
Net cash outflow from acquisitions and disposals		(5 3)	(6 1)
Dividends paid	22	(436 0)	(24 8)
Net cash outflow before use of liquid resources and financing		(890 8)	(179 4)
Management of liquid resources			
(Increase)/decrease in short-term deposits	9	(11 5)	20 0
Net cash (outflow)/inflow from management of liquid resources		(11 5)	20 0
Financing			
Issuance of bonds	13	3,081 9	1,507 9
Repayment of bonds	13	(680 2)	-
Drawdown of revolving credit facility	13	307 0	-
(Repayment)/drawdown of capital expenditure facility	13	(1,395 0)	95 0
Repayment of facilities and other items	13	(532 0)	(1,339 8)
Increase in amount owed to Heathrow Finance plc	13	269 9	31 8
Settlement of accretion on index-linked swaps		(80 0)	(15 0)
Cancellation and restructuring of derivatives		(75 9)	(114 4)
Net cash inflow from financing		895 7	165 5
(Decrease)/increase in cash	10	(6 6)	6 1
Reconciliation to net debt			
Net debt at 1 January	25	(10,852 0)	(10,476 3)
(Decrease)/increase in cash	10	(6 6)	6 1
Movement in liquid resources	9	11 5	(20 0)
Movement in external borrowings	25	(794 9)	(263 1)
Movement in inter-company borrowings	25	(269 9)	(31 8)
Fair value adjustments	25	216 8	(14 5)
Other non-cash changes	25	(24 4)	(52 4)
Net debt at 31 December	25	(11,719 5)	(10,852 0)

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012

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'))

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 the 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 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 next 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 owns the Designated Airports comprising the UK regulated airports of Heathrow and Stansted. 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 baggage operation when these services are rendered

Retail

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

Property and operational facilities

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

Rail

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

Other

- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery
- Car park revenue from third parties, recognised via concession fees based upon turnover certificates or on the performance of the service
- Insurance commission recognised on a straight line basis over the period of the policy

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *continued*

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 Heathrow Airport Holdings Group defined benefit pension scheme deficit and Unfunded 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.

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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *continued*

Tangible fixed assets *continued*

Depreciation

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

<i>Terminal complexes</i>	<i>Fixed asset lives</i>
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
<i>Airfields</i>	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
<i>Rail</i>	
Railways	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
<i>Plant and equipment</i>	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Computer software	3–7 years
<i>Other land and buildings</i>	
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

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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *continued*

Leases

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

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.

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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *continued*

Provisions continued

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*.

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 its assessment, both at hedge inception and on an on-going basis, of whether derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *continued*

Derivative financial instruments and hedging activities *continued*

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. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the 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 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 also acts as the provider of corporate and administrative services to the Group, sponsors the defined benefit pension schemes and grants all employee benefits.

On 18 August 2008, the airports entered into a SSA with LHR Airports Limited by which the latter became the shared services provider for the Group providing the airports with operational staff and corporate services.

Operational staff

LHR Airports Limited charges the airports for the provision of services in relation to staff costs, including 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. All of the amounts included in the abovementioned costs are settled in cash except for pension costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by LHR Airports Limited.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *continued*

Shared Services Agreement ('SSA') *continued*

Corporate and centralised services

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

Pension costs

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

The Group's airports and HEX have had an obligation since August 2008 to fund or benefit from their share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and 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 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 also recognised in reserves.

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

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

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

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

Share capital

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

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

Transactions denominated in foreign currencies are translated into Sterling using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the profit and loss account.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *continued*

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 2012. The results are also included in the audited consolidated financial statements of Heathrow Finance plc for the year ended 31 December 2012 (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 2012.

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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Significant accounting judgements and estimates for the year ended 31 December 2012

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 2012 and 31 December 2011 by CB Richard Ellis and Strutt & Parker, Chartered Surveyors. Strutt & Parker were responsible solely for the valuation of residential property and agricultural land at Stansted. The valuations were prepared in accordance 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 79% (2011: 76%) of the investment properties comprise car parks and airside assets at the Group's airports 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

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 2012, £581.9 million of fair value losses (2011: £527.8 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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012

1 Segment information

The Group's primary reporting format is business segments. The operating businesses are primarily the individual airports, which are organised and managed separately. All turnover originated in the UK.

	Turnover		Operating profit		Net assets/(liabilities)	
	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	31 December 2012 £m	31 December 2011 £m
Heathrow	2,222.5	2,045.6	542.5	526.8	1,363.0	1,452.0
Stansted	241.5	234.4	23.0	39.4	875.4	887.6
Other entities and adjustments ¹	-	-	5.6	5.9	(2,494.9)	(2,098.1)
Total	2,464.0	2,280.0	571.1	572.1	(256.5)	241.5

¹ The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, Heathrow Funding Limited, Heathrow (AH) Limited and the parent company Heathrow (SP) Limited.

Reconciliation of Adjusted EBITDA and operating profit

Adjusted EBITDA has been used to provide a clearer indication of the performance of the individual airports 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 2012		Operating		
	Adjusted EBITDA £m	exceptional items £m	Depreciation £m	Operating profit £m
Heathrow	1,163.8	(151.3)	(470.0)	542.5
Stansted	94.2	(30.7)	(40.5)	23.0
Other entities and adjustments ¹	5.9	(0.3)	-	5.6
Total	1,263.9	(182.3)	(510.5)	571.1

Year ended 31 December 2011		Operating		
	Adjusted EBITDA £m	exceptional items £m	Depreciation ² £m	Operating profit £m
Heathrow	1,039.2	(44.1)	(468.3)	526.8
Stansted	87.0	(7.1)	(40.5)	39.4
Other entities and adjustments ¹	5.9	0.1	(0.1)	5.9
Total	1,132.1	(51.1)	(508.9)	572.1

¹ The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, Heathrow Funding Limited, Heathrow (AH) Limited and the parent company Heathrow (SP) Limited.

² Depreciation excluding £11.0 million Airtrack rail exceptional costs which are included within operating exceptional items.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

2 Operating costs – ordinary

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Wages and salaries	293 3	271 0
Social security	26 5	23 9
Pensions	38 5	29 7
Other staff related	11 2	14 5
Employment costs ¹	369 5	339 1
Maintenance expenditure	149 5	137 0
Utility costs	109 0	110 8
Rents and rates	143 6	129 4
General expenses	144 9	133 2
Retail expenditure	32 8	31 0
Intra-group charges/other	150 1	168 2
Police	35 4	36 2
Aerodrome navigation service charges	65 7	63 3
Depreciation	510 5	508 9
Gain on disposal of tangible fixed assets	(0.4)	(0 3)
	1,710 6	1,656 8

¹ Employment costs are recharged from LHR Airports Limited for employee services to the Group. Refer to the SSA section in the Accounting policies

Rentals under operating leases

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Operating costs include		
Plant and machinery	37 1	34 8
Other operating leases	17 3	15 0

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 2012 £m	Restated ¹ Year ended 31 December 2011 £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 5	0 5
Total audit fees	0 5	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 2	0 1
Tax compliance services	-	0 1
Other tax services	-	0 1
Other assurance services	0 3	-
Corporate finance services	-	0 3
Other services	-	0 2
Total non-audit fees	0 5	0 8
Total fees	1 0	1 3

¹ The presentation of the 31 December 2011 numbers has been restated to be consistent with amended disclosure requirements

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

2 Operating costs – ordinary *continued*

Employee numbers

The Group has no employees other than the majority of HEX employees which in 2012 averaged 447 (2011 435). Other staff engaged in the operation of the Group's airports are employed by LHR Airports Limited which bears the related staff costs and recharges all such costs directly to the Group's airports. The average number of employees of LHR Airports Limited engaged in the Group's operations during the year was 6,393 (2011 6,403).

Directors' remuneration

José Leo was a director of a number of companies within the Heathrow Airport Holdings Group, including LHR Airports Limited, during the year. His remuneration for the year ended 31 December 2012 was apportioned based on services provided to Heathrow Airport Holdings Limited (2011 Heathrow Airport Holdings Limited) and is disclosed within its financial statements. Andrew Efiang was a director of a number of companies within the Group. He was paid by, but is not a director of, LHR Airports Limited. The directors do not believe it is possible to accurately apportion his remuneration to individual companies within the Group based on services provided.

During the year, none of the directors (2011 none) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2011 one) had retirement benefits accruing to them under a defined contribution scheme.

None of the directors (2011 none) exercised any share options during the year in respect of their services to the Group and no shares (2011 none) were received or became receivable under long term incentive plans.

3 Exceptional items

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Operating costs – exceptional pensions		
Pension charge	(182.3)	(40.3)
Operating costs – exceptional other	-	(10.8)
Total operating exceptional items	(182.3)	(51.1)
Exceptional impairment of fixed assets	(5.1)	-
(Loss)/gain on disposal of airports	(4.2)	7.9
Total non-operating exceptional items	(9.3)	7.9
Taxation on exceptional items	43.1	10.0
Total exceptional items after tax	(148.5)	(33.2)

Operating costs – exceptional pension

During 2012 there was a net exceptional pension charge of £182.3 million (2011 £40.3 million). This includes the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme deficit and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

Operating costs – exceptional other

For the year ended 31 December 2011 operating exceptional costs of £10.8 million were incurred, £11.0 million in relation to the Airtrack rail project which the Group decided not to pursue and a £0.2 million reorganisation credit.

Non-operating exceptional items

Exceptional impairment of fixed assets

In the year ended 31 December 2012, an impairment of £5.1 million was recognised at Heathrow as a result of a change in the expected future use of automated immigration systems in advance of their anticipated sale. This accounting charge is not expected to have an impact on these costs remaining in the airport's regulatory asset base.

(Loss)/gain on disposal of airports

In the year ended 31 December 2012, £4.2 million of disposal costs were incurred, £0.1 million of which was Gatwick related and £4.1 million Stansted related. Stansted disposal costs related to legal fees and other separation costs. During 2011, £7.9 million excess provisions for Gatwick disposal costs were released to the profit and loss account and related to legal fees and other separation costs.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

4 Net interest payable and similar charges

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Interest receivable and similar income		
Interest receivable on derivatives not in hedge relationship	249 4	220 0
Interest on bank deposits	0 3	0 4
	249 7	220 4
Interest payable and similar charges		
Interest on borrowings		
Bonds and related hedging instruments ¹	(567 8)	(462 2)
Bank loans and overdrafts and related hedging instruments	(121 5)	(157 6)
Interest payable on derivatives not in hedge relationship ²	(294 2)	(347 4)
Facility fees and other charges	(19 9)	(23 3)
Interest on debenture payable to Heathrow Finance plc	(53.3)	(46 9)
	(1,056 7)	(1,037 4)
Less capitalised interest ³	100 0	27 1
	(956.7)	(1,010 3)
Net interest payable before fair value gain/(loss)	(707 0)	(789 9)
Fair value gain/(loss) on financial instruments		
Interest rate swaps cash flow hedge ⁴	(1 6)	3 1
Index-linked swaps not in hedge relationship ⁵	109 3	(88 7)
Cross-currency swaps cash flow hedge ⁴	2 1	12 2
Cross-currency swaps fair value hedge ⁴	2 4	30 8
Fair value re-measurements of foreign exchange contracts and currency balances	0 2	(3 3)
	112 4	(45 9)
Net interest payable and similar charges	(594.6)	(835 8)

¹ Includes accretion of £17 6 million (2011 £15 4 million) on index-linked bonds

² Includes accretion of £173 0 million (2011 £231 8 million) on index-linked swaps

³ 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 4.75% (2011 2.08%) to expenditure incurred on such assets. Following the significant refinancing activity during the year, the Group has reassessed the applicable pool of general borrowing costs upon which interest has been capitalised. This has led to an increase in the capitalised interest rate to 4.75% compared to 2.08% for the previous year.

⁴ Hedge ineffectiveness on derivatives in hedge relationship

⁵ Reflects the impact on the valuation of movements in implied future inflation and interest rates and accounting adjustment in respect of accretion

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

5 Tax on loss on ordinary activities

	Note	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Current tax			
Current tax charge at 24.5% (2011 26.5%)		(27.8)	(21.0)
Adjustments in respect of prior years		3.8	5.9
Total current tax		(24.0)	(15.1)
Deferred tax			
Origination and reversal of timing differences		(5.7)	59.0
Adjustments in respect of prior years		1.2	(3.6)
Change in UK Corporation tax rate - impact on deferred tax liabilities		20.4	24.0
Total deferred tax	15	15.9	79.4
Tax (charge)/credit on loss on ordinary activities		(8.1)	64.3

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 24.5% (2011 26.5%). 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 2012 £m	Year ended 31 December 2011 £m
Loss on ordinary activities before tax	(32.8)	(255.8)
Tax calculated at the UK statutory rate of 24.5% (2011 26.5%)	8.0	67.8
Effect of		
Permanent differences	(38.8)	(29.8)
Depreciation for the year in excess of capital allowances	(44.4)	(75.2)
Capitalised interest	23.0	6.8
Other short-term timing differences	24.4	9.4
Adjustments in respect of current tax of previous periods	3.8	5.9
Current tax charge for the year	(24.0)	(15.1)

The standard rate of corporation tax in the UK will change to 23% with effect from 1 April 2013. Other than this change, and the unprovided deferred tax discussed in Note 15, there are no items which would materially affect the future tax charge.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

6 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 2012		2,187.5	93.7	8,449.1	1,248.7	1,382.3	114.4	671.5	1,863.0	16,010.2
Additions		9.4	-	2.0	-	-	0.1	7.0	1,162.5	1,181.0
Borrowing costs capitalised		-	-	-	-	-	-	-	100.0	100.0
Disposals		(3.2)	-	(31.5)	(1.1)	(4.3)	(0.1)	(18.8)	-	(59.0)
Reclassifications		-	-	(0.1)	4.8	-	-	(4.7)	-	-
Revaluation	19	41.2	(3.3)	-	-	-	-	-	-	37.9
Transfer to completed assets		(1.4)	-	405.8	7.3	2.2	11.3	42.7	(467.9)	-
31 December 2012		2,233.5	90.4	8,825.3	1,259.7	1,380.2	125.7	697.7	2,657.6	17,270.1
Depreciation										
1 January 2012		-	-	(2,686.0)	(322.7)	(343.6)	(36.7)	(460.7)	-	(3,849.7)
Depreciation charge		-	-	(361.1)	(37.9)	(41.0)	(6.3)	(64.2)	-	(510.5)
Impairment	3	-	-	-	-	-	-	(3.2)	(1.9)	(5.1)
Disposals		-	-	31.5	1.1	4.3	0.1	19.3	-	56.3
Reclassifications		-	-	-	(0.9)	-	-	0.9	-	-
31 December 2012		-	-	(3,015.6)	(360.4)	(380.3)	(42.9)	(507.9)	(1.9)	(4,309.0)
Net book value 31 December 2012		2,233.5	90.4	5,809.7	899.3	999.9	82.8	189.8	2,655.7	12,961.1
Net book value 31 December 2011		2,187.5	93.7	5,763.1	926.0	1,038.7	77.7	210.8	1,863.0	12,160.5

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

6 Tangible fixed assets *continued*

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2012 by CB Richard Ellis, Chartered Surveyors at £2,240.4 million (2011 £2,194.5 million) and by Strutt & Parker, Chartered Surveyors at £84.0 million (2011 £87.1 million), resulting in a total valuation of £2,324.4 million (2011 £2,281.6 million). Strutt & Parker were responsible solely for the valuation of residential property and agricultural land at Stansted. These valuations were prepared in accordance 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 £37.9 million (2011 £46.3 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 2012 was £772.7 million (2011 £767.1 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 2012 of £14.6 million (2011 £16.9 million).

Assets in the course of construction

Assets in the course of construction primarily consist of projects at Heathrow for work on the new Terminal 2 and its satellite building. They also include Terminal 3's new integrated baggage system.

Capitalised interest

Included in the net book value of fixed assets are interest costs of £992.0 million (2011 £931.4 million). £100.0 million (2011 £27.1 million) has been capitalised in the period at a capitalisation rate of 4.75% (2011 2.08%) based on a weighted average cost of borrowings.

Capitalised interest of £100.0 million (2011 £27.1 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 2012	31 December 2011
	£m	£m
Cost or valuation	2,975.2	2,930.0
Accumulated depreciation	(228.6)	(204.5)
Net book amount	2,746.6	2,725.5

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

7 Stocks

	31 December 2012	31 December 2011
	£m	£m
Raw materials and consumables	8.9	8.0

The replacement cost of raw materials and consumables at 31 December 2012 and 31 December 2011 was not materially different from the amount at which they are included in the Balance sheet.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

8 Debtors

	31 December 2012 £m	31 December 2011 £m
Due within one year		
Trade debtors	190.7	181.9
Prepayments	44.6	29.9
Other debtors	37.3	54.6
Amounts owed by group undertakings ¹	12.5	7.0
Amounts owed by group undertakings – pensions ²	-	32.5
	285.1	305.9
Due after more than one year		
Prepaid debt fees	12.6	-
Prepayments	15.2	-
Total debtors	312.9	305.9

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

² During 2012 LHR Airports Limited's defined benefit pension scheme went into a deficit position (2011: surplus) and as such, the share of the deficit allocated to the Airports and HEX sits within Provisions (2011: Debtors - Amounts owed by group undertakings – pensions).

9 Current asset investments

	31 December 2012 £m	31 December 2011 £m
Short-term deposits	32.5	21.0

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 £32.5 million as at 31 December 2012 (2011: A-1+ £21.0 million).

10 Cash

	31 December 2012 £m	31 December 2011 £m
Cash at bank and in hand	5.4	12.2
Restricted cash	0.2	-
	5.6	12.2

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

11 Creditors: amounts falling due within one year

	Note	31 December 2012 £m	31 December 2011 £m
Deferred income		35.4	30.7
Interest accruals		265.6	206.2
Trade creditors ¹		117.3	136.1
Corporation tax payable		6.4	8.7
Other tax and social security		7.6	7.7
Group relief payable		13.4	15.4
Other creditors		28.3	6.8
Amounts owed to group undertakings ²		18.4	19.8
Capital creditors		270.8	250.1
Borrowings	13	428.4	871.7
Derivative financial instruments	14	39.7	-
		1,231.3	1,553.2

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 the Group's airports.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

12 Creditors amounts falling due after more than one year

	Note	31 December 2012 £m	31 December 2011 £m
Deferred income		-	0.9
Other creditors		4.2	-
Borrowings	13	11,329.2	10,013.5
Derivative financial instruments	14	1,094.0	1,081.6
		12,427.4	11,096.0

13 Borrowings

	31 December 2012 £m	31 December 2011 £m
Current borrowings		
Secured		
Bank loans - EIB	39.1	39.1
Bonds		
3.975% €1,000 million due 2012	-	832.6
5.850% £400 million due 2013	389.3	-
Total current borrowings	428.4	871.7
Non-current borrowings		
Secured		
Revolving credit facility	289.9	-
Capital expenditure facility	-	1,395.0
Other bank loans	362.9	870.0
	652.8	2,265.0
Secured		
Bonds		
5.850% £400 million due 2013	-	379.9
4.600% €750 million due 2014	563.5	588.8
3.0% £300 million due 2015	298.6	-
2.5% US\$500 million due 2015	306.4	-
12.450% £300 million due 2016	344.6	356.3
4.125% €500 million due 2016	391.0	398.5
4.375% €700 million due 2017	566.2	-
2.500% CHF400 million due 2017	267.8	-
4.600% €750 million due 2018	551.6	559.8
6.250% £400 million due 2018	398.8	397.1
4.000% CAD400 million due 2019	244.8	-
6.000% £400 million due 2020	395.5	-
9.200% £250 million due 2021	282.8	280.6
4.875% US\$1,000 million due 2021	661.0	683.3
1.650%+RPI £180 million due 2022	184.3	-
5.225% £750 million due 2023	632.4	624.9
7.125% £600 million due 2024	587.8	-
6.750% £700 million due 2026	690.2	689.8
7.075% £200 million due 2028	197.6	197.5
6.450% £900 million due 2031	863.6	840.8
Zero-coupon €50 million due January 2032	42.2	-
Zero-coupon €50 million due April 2032	41.9	-
3.334%+RPI £460 million (2011 £365 million) due 2039 ¹	547.3	416.3
5.875% £750 million due 2041	749.0	737.3
	9,808.9	7,150.9
Unsecured		
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	867.5	597.6
Total non-current borrowings	11,329.2	10,013.5
Total borrowings	11,757.6	10,885.2

¹ This index-linked bond was re-opened generating proceeds of £118.6 million in March 2012 (2011 £154.3 million in May 2011)

The average cost of the Group's external gross debt at 31 December 2012 was 4.24% (2011 4.17%) 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 2012 was 5.83% (2011 6.45%). The decrease in the average cost of debt (including index-linked accretion) is mainly due to lower inflation during the year.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

13 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 2012		31 December 2011	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Long-term debt	11,329.2	13,146.7	10,013.5	10,875.5

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, Stansted 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 £289 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking *pari passu* with the senior (Class A) creditors to the Obligors.

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

Heathrow Airport Limited, Stansted 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 2012, the Group had cash and liquid resources of £38.1 million (2011: £33.2 million) and undrawn committed facilities of £1,693.0 million (2011: £1,355.0 million).

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

14 Derivative financial instruments

31 December 2012	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Index-linked swaps	396.4	-	(39.6)	(39.6)
Foreign exchange contracts	33.6	0.4	(0.1)	0.3
	430.0	0.4	(39.7)	(39.3)
Non-current				
Interest rate swaps	2,336.0	-	(402.0)	(402.0)
Cross-currency swaps	3,503.1	290.5	(30.5)	260.0
Index-linked swaps	5,066.1	15.3	(661.5)	(646.2)
	10,905.2	305.8	(1,094.0)	(788.2)
Total	11,335.2	306.2	(1,133.7)	(827.5)
31 December 2011	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Cross-currency swaps	680.2	170.9	-	170.9
Foreign exchange contracts	6.5	-	-	-
	686.7	170.9	-	170.9
Non-current				
Interest rate swaps	3,191.0	-	(433.8)	(433.8)
Cross-currency swaps	2,078.2	368.7	(4.7)	364.0
Index-linked swaps	5,253.9	0.4	(643.1)	(642.7)
	10,523.1	369.1	(1,081.6)	(712.5)
Total	11,209.8	540.0	(1,081.6)	(541.6)

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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

15 Deferred tax

	Note	£m
1 January 2012		123.1
Credited to profit and loss account ¹	5	(15.9)
Credited to fair value reserve		(14.5)
Change in UK Corporation tax rate – charged to fair value reserve	21	10.6
31 December 2012		103.3

¹ Includes £20.4 million credit to the profit and loss account for change in tax rate from 25% to 23% effective 1 April 2013

Analysis of the deferred tax balances is as follows

	31 December 2012 £m	31 December 2011 £m
Excess of capital allowances over depreciation	190.4	231.0
Other timing differences	(87.1)	(107.9)
	103.3	123.1

	Un-provided 31 December 2012 £m	Un-provided 31 December 2011 £m
Tax on chargeable gains if investment properties were sold at their current valuations	285.4	308.9
Tax on rolled over gains if replacement assets were sold at their current valuations	8.1	8.8
	293.5	317.7

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 £293.5 million (2011: £317.7 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

The Finance Act 2012 enacted a reduction in the main rate of UK corporation tax from 25% to 24% with effect from 1 April 2012 and from 24% to 23% with effect from 1 April 2013. As a result, the Group's deferred tax balances, which were previously provided at 25%, have been re-measured at the rate of 23% in the year ended 31 December 2012. This has resulted in a reduction in the net deferred tax liability of £9.8 million, with £20.4 million credited to the profit and loss account (Note 5) and £10.6 million charged to reserves (Note 21).

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

16 Provisions for liabilities

	Disposal of operations £m	Reorganisation costs £m	Pensions £m	Other £m	Total £m
1 January 2012	1 0	3 9	21 5	7 4	33 8
Utilised	(1 1)	(3 9)	-	(5 2)	(10 2)
Charged to profit and loss account	0 1	2 1	-	2 7	4 9
Movement in pensions	-	-	93 2	-	93 2
31 December 2012	-	2 1	114 7	4 9	121 7

Disposal of operations

All amounts relating to the disposal of Gatwick airport have been utilised in 2012

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. These costs are for severance and pension payments only and are expected to be utilised in 2013.

Pensions

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

At 31 December 2012, £92.0 million represents the share of the LHR Airports Limited defined benefit pension scheme deficit (2011 surplus of £32.5 million classified in Debtors – Amounts owed to group undertakings – pensions). The remaining £22.7 million (2011 £21.5 million) is held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities. The movement in the year is mainly due to the LHR Airports Limited defined benefit pension scheme moving from a surplus to a deficit position.

Other

These provisions are largely due to onerous contracts primarily relating to energy purchases and property leases. All amounts are expected to be utilised within three years.

17 Called up share capital

	£
Authorised	
At 1 January 2012 and 31 December 2012 9,000,000,000 ordinary shares of £0.0019 each	17,100,000
Allotted and fully paid	
In issue at 1 January 2012 and 31 December 2012 5,773,555,178 ordinary shares of £0.0019 each	10,969,755

18 Share premium reserve

	£m
1 January 2012 and 31 December 2012	499 0

19 Revaluation reserve

	£m
1 January 2012	1,514 4
Unrealised gain on revaluation of investment properties	37 9
Transfer to profit and loss reserves ¹	(718 0)
Realised gain on tangible fixed assets	1 1
31 December 2012	835 4

¹ On 21 June 2012 the shareholders and directors of Heathrow Airport Limited approved a capitalisation of the revaluation reserve of £718,000,000, reducing the revaluation reserve and increasing share capital to enable a share capital reduction and payment of dividends (refer Note 22).

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

20 Merger reserve

	£m
1 January 2012 and 31 December 2012	(4,535 6)

Refer to the Basis of consolidation section in the Accounting policies

21 Fair value reserve

	£m
1 January 2012	(396 3)
Cash flow hedges	
Fair value losses	(372 7)
Transferred to profit and loss account	309 8
Deferred tax on fair value losses	14 5
Change in UK Corporation tax rate	(10 6)
31 December 2012	(455 3)

22 Profit and loss reserve

	£m
1 January 2011	3,365 3
Loss for the year	(191 5)
Dividends paid ¹	(24 8)
1 January 2012	3,149 0
Loss for the year	(40 9)
Transfer from revaluation reserves ²	718 0
Dividends paid ¹	(436 0)
Realised gain on tangible fixed assets	(1 1)
31 December 2012	3,389 0

¹ During the year ended 31 December 2012 Heathrow (SP) Limited paid dividends of £436 0 million to Heathrow Finance plc, being £395 0 million on 15 March 2012, £20 0 million on 21 June 2012 and £21 0 million on 10 August 2012 (2011 £24 8 million on 10 August 2011)

² On 21 June 2012 the shareholders and directors of Heathrow Airport Limited approved a capitalisation of the revaluation reserve of £718,000 000, reducing the revaluation reserve and increasing share capital to enable a share capital reduction and payment of dividends (refer Note 19)

23 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 £0 5 million at 31 December 2012 (2011 £205 5 million)

24 Commitments

Non-cancellable operating lease commitments – Group as a lessee

Annual commitments under non-cancellable operating leases expiring

	31 December 2012		31 December 2011	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	0 2	0 2	1 4	-
Within two to five years	2 2	0 5	1 6	-
After five years	11 7	49 5	10 4	50 0
	14 1	50 2	13 4	50 0

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

A significant portion of the commitments classified as 'other' relates to electricity supply equipment at the airports leased on agreement with UK Power Networks Services Limited ('UPNS'). The lease expires in 2083.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

24 Commitments *continued*

Non-cancellable electricity purchase commitment

The Group has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Group until March 2013. Such commitments are for the normal purchase, sale or usage of electricity and hence are accounted for as ordinary purchase contracts.

Group commitments for capital expenditure

	31 December 2012 £m	31 December 2011 £m
Contracted for, but not accrued		
Terminal 2 - Heathrow	624.8	1,050.5
Western baggage product - Heathrow	52.4	45.5
Terminal restoration and modernisation - Heathrow	28.9	13.5
Capacity optimisation - Heathrow	19.8	7.5
IT projects - Heathrow	14.6	4.7
Major foam tenders – Stansted	0.6	2.6
Rolling Stock refresh/rebrand – Heathrow Express	-	10.9
	741.1	1,135.2
Other projects	53.6	10.3
	794.7	1,145.5

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 £5.3 billion (in 2007/08 prices) capital investment programme in respect of the current regulatory period that now ends on 31 March 2014 following its extension by one year. Capital expenditure at Heathrow in the year ending 31 December 2013 is expected to be over £1.3 billion. 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.

The capital programme included in Stansted's current price determination foresees total investment of £125 million until the end of March 2014. Capital expenditure at Stansted in 2013 is forecast to be approximately £20 million.

Other commitments

The Group has operated blight compensation schemes relating to properties that might be affected by potential future runway developments at Heathrow and Stansted. However, these schemes were closed following the change in government policy in relation to runway developments in South East England. Heathrow has a remaining commitment to purchase one property at 31 December 2012. All properties purchased under these schemes are included within investment properties at a value of £129.1 million as at 31 December 2012 (2011: £125.2 million).

In June 2006, the government announced its conclusions for the 2006-2012 night flights regime at the Group's airports. The government was expected to consult on proposals for the post 2012 night flights regime during 2011. However, the government is conducting a consultation and review of aviation policy which includes reference to noise insulation and mitigation schemes. In addition they have announced that the existing night flights regime has been extended until October 2014. The process for replacing the existing night flights regime is expected to involve two stages, an initial consultation in 2012 and a further consultation in 2013 which will set out specific proposals for the new regime taking into account the revised aviation policy. Until these review processes are complete, the Group is unable to quantify potential future noise insulation and mitigation obligations.

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 (out of which £24 million related to deficit reduction) that became effective from 1 January 2012. Following the disposal of Edinburgh Airport Limited, the schedule of cash contributions has been reduced to £94 million per annum for 2013 and 2014. All but approximately £9.7 million of the new annual amount will be met by the Group's airports.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

25 Notes to the consolidated cash flow statement

Net cash inflow from operating activities

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Operating profit	571.1	572.1
<i>Adjustments for:</i>		
Depreciation (including exceptional operating costs)	510.5	519.9
Gain on disposal of fixed assets	(0.4)	(0.3)
<i>Working capital changes</i>		
Increase in stock and debtors	(27.8)	(34.6)
(Decrease)/increase in creditors	(11.0)	30.6
Net release of provisions	(4.4)	(7.3)
Difference between pension charge and cash contributions	(56.6)	(35.7)
Exceptional pension charge	182.3	40.3
Exceptional working capital settlement of intercompany balance ¹	-	47.2
Net cash inflow from continuing operations	1,163.7	1,132.2

¹ Reflects a one-off £47.2 million improvement in working capital following the implementation in 2011 of the new Heathrow Airport Holdings Group cash management process that resulted in cash in transit to the Group being received faster

Operating cash flows include under continuing operations an outflow of £3.9 million (2011 £4.7 million) for reorganisation costs

Reconciliation in net debt

	1 January 2012 £m	Cash flow £m	Transfers from long term to short term £m	Other non-cash changes ¹ £m	31 December 2012 £m
Cash at hand and in bank	12.2	(6.6)	-	-	5.6
Debt due within one year	(871.7)	719.3	(427.8)	151.8	(428.4)
Debt due after more than one year	(10,013.5)	(1,784.1)	427.8	40.6	(11,329.2)
Liquid resources	21.0	11.5	-	-	32.5
Net debt	(10,852.0)	(1,059.9)	-	192.4	(11,719.5)

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'

26 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. (33.65%) (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) and Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation)

The Group's results are also included in the audited consolidated financial statements of Heathrow Finance plc for the year ended 31 December 2012, 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 2012

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

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Group financial statements for the year ended 31 December 2012 *continued*

27 Subsidiaries

The Company's subsidiaries are as follows

Holding companies

Heathrow (AH) Limited

Airport owners and operators

Heathrow Airport Limited †

Stansted 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

28 Post balance sheet events

After challenging for a number of years the proportionality of the disposal remedies imposed by the Competition Commission resulting from its inquiry into the supply of UK airport services by the Group, a disposal process for Stansted airport commenced in August 2012 which led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million. The sale is expected to complete by the end of February 2013.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

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Heathrow (SP) Limited (Formerly BAA (SP) Limited)

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 2012 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. 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 2012 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 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 2012.



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

15 February 2013

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Company balance sheet as at 31 December 2012

	Note	31 December 2012 £m	31 December 2011 £m
Fixed assets			
Investments in subsidiaries	2	6,045.6	6,045.6
Current assets			
Debtors (due after more than one year £328.3m (2011 £619.3m))	3	351.0	641.4
Cash at bank and in hand		0.6	0.2
		351.6	641.6
Creditors amounts falling due within one year	4	(76.3)	(35.7)
Net current assets		275.3	605.9
Total assets less current liabilities		6,320.9	6,651.5
Creditors amounts falling due after more than one year	5	(2,813.1)	(2,720.4)
Net assets		3,507.8	3,931.1
Capital and reserves			
Called up share capital	6	11.0	11.0
Share premium reserve	7	499.0	499.0
Profit and loss reserve	8	2,997.8	3,421.1
Total shareholder's funds		3,507.8	3,931.1

The financial statements of Heathrow (SP) Limited (Company registration number 06458621) were approved by the Board of Directors and authorised for issue on 15 February 2013. They were signed on its behalf by



José Leo
Director



Andrew Efiang
Director

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012

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 applicable Companies Act 2006 and 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.

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.

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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Accounting policies for the year ended 31 December 2012 *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. Interim dividends are recognised when paid.

Share capital

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

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 2012. The results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2012 (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 2012. 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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Company financial statements for the year ended 31 December 2012

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 £12.7 million (2011: £109.7 million loss).

2 Investments in subsidiaries

	£m
Cost	
1 January 2012 and 31 December 2012	7,373.6
Impairment	
1 January and 31 December 2012	(1,328.0)
Net book value 31 December 2012	6,045.6
Net book value 31 December 2011	6,045.6

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 27 of the Heathrow (SP) Limited group financial statements.

3 Debtors

	31 December 2012 £m	31 December 2011 £m
Due within one year		
Amounts owed by group undertakings - interest receivable	0.3	2.3
Group relief receivable	22.4	19.8
	22.7	22.1
Due after more than one year		
Amounts owed by group undertakings - interest bearing	328.3	619.3
Total debtors	351.0	641.4

Amounts owed by group undertakings - interest bearing represents a loan to Stansted Airport Limited attracting fixed rate interest of 5.62% as at 31 December 2012.

4 Creditors amounts falling due within one year

	31 December 2012 £m	31 December 2011 £m
Amounts owed to group undertakings - interest payable	76.3	35.7

5 Creditors amounts falling due after more than one year

	31 December 2012 £m	31 December 2011 £m
Amounts owed to group undertakings - interest bearing	1,945.6	2,122.8
Debenture payable to Heathrow Finance plc	867.5	597.6
	2,813.1	2,720.4

Amounts owed to group undertakings - interest bearing represents loan payable to Stansted Airport Limited of £nil million (2011: £366.8 million) and loan payable to Heathrow Airport Limited of £1,945.6 million (2011: £1,756.0 million). All loans have a fixed interest rate of 7.57% (2011: 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 2012, the rate on the debenture was 6.83% (2011: 6.91%). The decrease in the interest rate is primarily due to the issuance by Heathrow Finance plc of a fixed rate bond with a lower coupon in December 2012 and lower Libor rates in the year on its loan facilities.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Company financial statements for the year ended 31 December 2012 *continued*

6 Share capital

	£
Authorised	
At 1 January 2012 and 31 December 2012	
9,000,000,000 ordinary shares of £0.0019 each	17,100,000
Called up, allotted and fully paid	
In issue at 1 January 2012 and 31 December 2012 5,773,555,178 ordinary shares of £0.0019 each	10,969,755

7 Share premium reserve

	£m
1 January 2012 and 31 December 2012	499.0

8 Profit and loss reserve

	£m
1 January 2012	3,421.1
Profit for the financial year	12.7
Dividends paid ¹	(436.0)
31 December 2012	2,997.8

¹ During the year ended 31 December 2012 Heathrow (SP) Limited paid dividends of £436.0 million to Heathrow Finance plc, being £395.0 million on 15 March 2012, £20.0 million on 21 June 2012 and £21.0 million on 10 August 2012

9 Auditor's remuneration

Audit fees are recharged in accordance with the group 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 (2011: £20,000) as remuneration for the audit of the Company's financial statements, the cost of which is 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 (2011: nil).

Directors' remuneration

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

11 Ultimate parent undertaking

The immediate parent undertaking is Heathrow Finance plc, a company incorporated in Great Britain and 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. (33.65%) (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 LP and Alinda Airports LP (11.18%) (investment vehicles managed by Alinda Capital Partners) and Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2012, 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 2012.

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.

Heathrow (SP) Limited (Formerly BAA (SP) Limited)

Notes to the Company financial statements for the year ended 31 December 2012 *continued*

12 Post balance sheet events

After challenging for a number of years the proportionality of the disposal remedies imposed by the Competition Commission resulting from its inquiry into the supply of UK airport services by the Group, a disposal process for Stansted airport commenced in August 2012 which led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million. The sale is expected to complete by the end of February 2013.

Registered office

Heathrow (SP) Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England Number 06458621