

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

Heathrow Funding Limited (Formerly BAA Funding Limited)

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Heathrow Funding Limited (Formerly BAA Funding Limited)

Officers and professional advisers

Directors

Andrew Efiang

José Leo

Neville Scott

Secretary

State Street Secretaries (Jersey) Limited

Registered office

22 Grenville Street

St Helier

Jersey

JE4 8PX

Channel Islands

Independent auditor

Deloitte LLP

Chartered Accountants

2 New Street Square

London

EC4A 3BZ

Bankers

The Royal Bank of Scotland plc

135 Bishopsgate

London

EC2M 3UR

Heathrow Funding Limited (Formerly BAA Funding Limited)

Directors' report

The Directors present their annual report and the audited financial statements for Heathrow Funding Limited (the 'Company', formerly BAA Funding Limited) for the year ended 31 December 2012.

Principal activities

The principal activity of Heathrow Funding Limited is to act as the bond issuer for Heathrow (SP) Limited (formerly BAA (SP) Limited) and its subsidiaries (the 'SP Group'). The Company is a direct subsidiary of Heathrow (SP) Limited and forms part of the Heathrow Finance plc (formerly BAA (SH) plc) group and the Heathrow Airport Holdings Limited (formerly BAA Limited) group (the 'Heathrow Airport Holdings Group'). The Company is incorporated in Jersey but is resident in the United Kingdom for taxation purposes.

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 accounts for more than 95% of the former BAA Limited group since Stansted's sale in February 2013. The change saw BAA Funding Limited become Heathrow Funding Limited on 12 October 2012.

The Company's primary purpose is to raise funding from external sources and provide funding to the SP Group. This is done through the issuance of external bonds and use of external derivatives. The proceeds raised are distributed to fellow subsidiaries of Heathrow (SP) Limited, under the terms of the Borrower Loan Agreements ('BLAs').

The SP Group's financing position was transformed in 2012 with over £3 billion raised in multiple capital markets transactions. A total of eleven transactions were completed 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 SP Group's presence in the US market established in 2011.

A review of the Company's principal business risks is reported below.

Results and dividends

The profit after taxation for the financial year amounted to £53.4 million (2011: £46.3 million). No ordinary dividends were proposed or paid during the year (2011: £nil). The statutory results for the year are set out on page 7.

Directors

The directors who served during the year and since the year end, except as noted, are as follows:

Andrew Efiog	Appointed 8 October 2012
José Leo	
Frederick Maroudas	Resigned 8 October 2012
Vincent Rapley	Resigned 31 January 2012
Neville Scott	Appointed 16 February 2012

Company secretary

The company secretary is State Street Secretaries (Jersey) Limited.

Employment policies

The Company has no direct employees.

Risk management

The Company actively manages all identified risks. Details of the risk management policies of Heathrow (SP) Limited, its immediate parent, can be found in its financial statements. The Executive Committee, Board and Audit Committee ('AC') referred to below relate to the Executive Committee, Board and AC of Heathrow Airport Holdings Limited.

Heathrow Funding Limited (Formerly BAA Funding Limited)

Directors' report *continued*

Risk management *continued*

Financial risk management objectives and policies

Treasury

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

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

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

- (a) Interest rates
The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2012, fixed rate debt after hedging with derivatives represented 80% of the SP Group's total external nominal debt.
- (b) Inflation
The SP Group mitigates the risk of mismatch between Heathrow Airport Limited's aeronautical income and regulatory asset base, which are directly linked to changes in the Retail Prices Index, and nominal debt and interest payments by the use of inflation linked instruments.
- (c) Foreign currency
The SP Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The SP Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.
- (d) Funding and liquidity
The SP Group has established an investment grade financing platform. This platform supports bank term debt, bank revolving credit facilities, bank liquidity facilities and sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the AC, the Board and the Executive Committee.

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

The SP Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under the revolving credit facility. As at 31 December 2012, the SP Group's cash and current asset investments were £38.1 million, undrawn headroom under bank credit facilities was £1,693.0 million and undrawn headroom under bank liquidity facility was £750.0 million.

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

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

Heathrow Funding Limited (Formerly BAA Funding Limited)

Directors' report *continued*

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies (Jersey) Law 1991, 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 of liability incurred by him by reason of being or having been such an officer.

Auditor

Pursuant to the provisions of the Companies (Jersey) Law 1991, the auditors will be deemed to be re-appointed and Deloitte LLP will therefore continue in office.

On behalf of the Board

A handwritten signature in black ink, consisting of a stylized 'J' and 'L' intertwined, with a long horizontal stroke extending to the right.

José Leo
Director

19 April 2013

Company registration number: 99529 (Jersey)

Heathrow Funding Limited (Formerly BAA Funding Limited)

Directors' responsibilities statement

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

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

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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Heathrow website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



José Leo
Director

19 April 2013

Heathrow Funding Limited (Formerly BAA Funding Limited)

Independent auditor's report to the members of Heathrow Funding Limited

We have audited the financial statements of Heathrow Funding Limited for the year ended 31 December 2012 which comprise the Profit and loss account, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, Significant accounting judgements and estimates and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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 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 misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 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 properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper 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
- we have not received all the information and explanations we require for our audit.



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

19 April 2013

Heathrow Funding Limited (Formerly BAA Funding Limited)

Profit and loss account for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Interest receivable from group undertakings		621.5	585.8
Interest payable on external borrowings		(588.3)	(490.2)
Net interest payable on derivative financial instruments	2	(43.0)	(100.0)
Fair value gain on financial instruments	3	63.2	50.7
Operating profit on ordinary activities before taxation		53.4	46.3
Tax on profit on ordinary activities	4	-	-
Profit after taxation for the financial year	11	53.4	46.3

The accompanying accounting policies, significant accounting judgements, estimates and notes are an integral part of this statement.

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

There are no recognised gains or losses for the current or prior year other than stated in the profit and loss account and accordingly no Statement of total recognised gains and losses is presented.

The Company has not presented a note of historical cost profits and losses because the effects of fair value accounting for derivative financial instruments are not required to be included in the reconciliation of the reported profit on ordinary activities before taxation and the historical cost equivalents.

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

	Note	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Profit for the financial year	11	53.4	46.3
Net movement in shareholder's funds		53.4	46.3
Opening shareholder's funds/(deficit)		16.9	(29.4)
Closing shareholder's funds		70.3	16.9

The accompanying accounting policies, significant accounting judgements, estimates and notes are an integral part of this statement.

Heathrow Funding Limited (Formerly BAA Funding Limited)

Balance sheet as at 31 December 2012

	Note	31 December 2012 £m	31 December 2011 £m
Current assets			
Debtors (including amounts due after more than one year of £10,915.4 million (2011: £7,937.4 million))	5	11,547.3	8,879.9
Cash at bank and in hand		0.1	0.1
Total current assets		11,547.4	8,880.0
Creditors: amounts falling due within one year	6	(697.0)	(1,054.9)
Net current assets		10,850.4	7,825.1
Creditors: amounts falling due after more than one year	7	(10,780.1)	(7,808.2)
Net assets		70.3	16.9
Capital and reserves			
Stated capital	10	-	-
Profit and loss reserve	11	70.3	16.9
Total shareholder's funds		70.3	16.9

The accompanying accounting policies, significant accounting judgements, estimates and notes are an integral part of this statement.

These financial statements of Heathrow Funding Limited (Company registration number: 99529 (Jersey)) were approved by the Board of Directors and authorised for issue on 19 April 2013. They were signed on its behalf by:



José Leo
Director



Andrew Efiang
Director

Heathrow Funding Limited (Formerly BAA Funding Limited)

Accounting policies for the year ended 31 December 2012

The principal accounting policies applied in the preparation of these financial statements of Heathrow Funding Limited (the 'Company', formerly BAA Funding Limited) are set out below. These policies have been applied consistently to all the years presented.

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments in accordance with the Companies (Jersey) Law 1991 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')).

Going concern

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

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

- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall SP Group liquidity position, remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (refer to the Directors' report).

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.

Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The 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 balance sheet date. Differences arising on translation are charged or credited to the profit and loss account.

Foreign exchange risk

The Company uses cross-currency swaps to economically hedge the related interest and principal payments of certain borrowings raised in foreign currencies. The exchange difference arising from the translation of borrowings are taken to the profit and loss account together with any changes in the fair value of the hedging instrument.

Debtors

Debtors are recognised at cost less any provision for impairment.

Cash

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. 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.

Taxation

Whilst the Company is incorporated outside the UK, it is treated as a UK resident company for tax purposes. The Company qualifies as a 'securitisation company' within the scope of the Taxation of Securitisation Companies Regulations 2006 under UK tax law. As a result, the Company will be subject to UK corporation tax on a small margin of £20,000 (2011: £20,000) rather than on the profit or loss shown in the profit and loss account.

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

Stated capital

Ordinary shares are recorded at the fair value of proceeds received, net of direct issue costs.

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

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 Company does not currently designate the derivatives held by the Company in a hedge relationship, but rather they are hedge accounted for at the SP Group level. Derivatives are classified based on their maturity.

Changes in the fair value of derivatives not in a hedge relationship are recorded 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 Company'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.

Classification of financial instruments issued by the Company

In accordance with Financial Reporting Standard ('FRS') 25 *Financial Instruments: Presentation*, financial instruments issued by the Company 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 Company 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 Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company 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 Company's own shares, the amounts presented in these financial statements for stated 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, are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

The Company is exempt from reporting information under FRS 29 *Financial Instruments: Disclosures* because the consolidated financial statements of its intermediate parent, Heathrow Finance plc (formerly BAA (SH) Limited), are prepared in accordance with IFRS 7 *Financial Instruments: Disclosures*.

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

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.

On the initial recognition of the Borrower Loan Agreement ('BLA') loan the embedded derivative (being the RPI return of some of the BLA tranches) is assessed through an analysis of the correlation between nominal interest rates and real interest rates. Based on this analysis, management has concluded that the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract. Therefore, no bifurcation of the embedded derivative from the host contract is undertaken.

Cash flow statement and related party transactions

The ultimate parent entity 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 of the Company 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)*. Instead, a summary cash flow statement has been provided on a voluntary basis in a note to the financial statements.

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

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

In applying the Company'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 believe that the following area presents the greatest level of uncertainty.

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 Funding Limited (Formerly BAA Funding Limited)

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

1 Operating costs

Auditor's remuneration

Audit fees are recharged in accordance with the Shared Service Agreement ('SSA') into the operating entities. This entity is not an operating entity and is therefore not party to the SSA and receives no recharge of the audit cost. However, the Company's auditors received £20,000 (2011: £21,000) as remuneration for the audit of the Company's financial statements, the cost of which is borne by LHR Airports Limited.

Employee information

The Company has no employees (2011: nil).

Directors' remuneration

An amount was paid to State Street Administration Services (UK) Limited (a related party due to their ability to appoint a director), for directors' services totalling £5,000 for the year ended 31 December 2012 (2011: £5,000). This payment is made annually for the services of Neville Scott, an independent UK-resident director provided by State Street Administration Services (UK) Limited as a director of Heathrow Funding Limited, in line with the existing Issuer Corporate Agreements between the companies. In addition to this £22,000 (2011: £38,000) was paid to State Street Administration Services (UK) Limited by various entities in the Heathrow Airport Holdings Group for registered office and company secretary services.

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 disclosed in the financial statements of Heathrow Airport Holdings Limited (formerly BAA Limited). Andrew Efiang was a director of a number of companies within the Heathrow Airport Holdings 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 benefits 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.

2 Net interest payable on derivative financial instruments

	Year ended 31 December 2012	Year ended 31 December 2011
	£m	£m
Interest receivable on derivatives	399.9	345.6
Interest payable on derivatives	(442.9)	(445.6)
	(43.0)	(100.0)

3 Fair value gain on financial instruments

	Year ended 31 December 2012	Year ended 31 December 2011
	£m	£m
Index-linked swaps	50.2	(25.9)
Cross-currency swaps and retranslation of foreign currency debt	13.0	76.6
	63.2	50.7

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

4 Tax on profit on ordinary activities

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Current tax		
UK corporation tax on profit for the year	-	-
	-	-

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 and prior year 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
Profit on ordinary activities before tax	53.4	46.3
Tax on profit on ordinary activities at 24.5% (2011: 26.5%)	13.1	12.3
Effect of:		
Permanent differences	(13.1)	(12.3)
Current tax charge for the year	-	-

As the Company qualifies as a 'securitisation company' within the scope of Taxation of Securitisation Companies Regulations 2006, it is subject to UK corporation tax on a small margin rather than on the profit shown in the Profit and loss account.

For the year ended 31 December 2012, the profits subject to corporation tax were £20,000 (2011: £20,000) which gave rise to a tax liability of £4,900 (2011: £5,300). A prior year under provision of taxation of £10,342 arose in the year (2011: over provision of £5,600).

5 Debtors

	31 December 2012 £m	31 December 2011 £m
Due within one year:		
Derivative financial instruments (Note 9)	-	170.9
Interest receivable from group undertakings ¹	181.4	92.8
Amount owed by group undertakings - interest bearing ²	449.6	677.8
Other debtors	0.9	1.0
	631.9	942.5
Due after more than one year:		
Derivative financial instruments (Note 9)	849.0	587.1
Amount owed by group undertakings - interest bearing ²	10,066.4	7,350.3
	10,915.4	7,937.4
Total debtors	11,547.3	8,879.9

¹ Interest receivable from group undertakings relates to interest accrued on the BLAs receivable from Heathrow Airport Limited ('Heathrow').

² Amounts owed by group undertakings – interest bearing largely represent the balance of the BLAs receivable from Heathrow. The advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by the Company, taking into consideration the related hedging instruments.

In 2012, following new bond issues by the Company, further BLA advances were made to Heathrow for a total amount of £3,077.2 million net of transaction costs and £680.2 million was repaid on the BLA advances to settle the €1,000 million bond in February 2012.

Heathrow (SP) Limited, Heathrow (AH) Limited, Heathrow Airport Limited, Stansted Airport Limited (until its disposal on 28 of February 2013) and Heathrow Express Operating Company Limited are joint guarantors in respect of principal, indexation, interest, fees and hedging arrangements in relation to the borrowings of Heathrow under the BLAs.

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

6 Creditors: amounts falling due within one year

	31 December 2012	31 December 2011
	£m	£m
Interest payable on borrowings	245.5	183.9
Amounts owed to group undertakings - non-interest bearing ¹	2.4	38.3
Borrowings (Note 8) ²	389.3	832.6
Other creditors	20.2	0.1
Derivative financial instruments (Note 9)	39.6	-
	697.0	1,054.9

¹ Amounts owed to group undertakings — non-interest bearing relate largely to the prepayment of interest and accretion received from Heathrow Airport Limited in relation to a number of BLA advances.

² Prior year current borrowings consisted of a €1,000 million bond which was repaid in February 2012.

7 Creditors: amounts falling due after more than one year

	31 December 2012	3 December 2011
	£m	£m
Borrowings (Note 8)	9,758.5	7,130.6
Derivative financial instruments (Note 9)	1,021.6	677.6
	10,780.1	7,808.2

8 Borrowings

	31 December 2012	31 December 2011
	£m	£m
Current		
Secured		
Bonds		
3.975% €1,000 million due 2012	-	832.6
5.850% £400 million due 2013	389.3	-
Total current	389.3	832.6
Non-current		
Secured		
Bonds		
5.850% £400 million due 2013	-	379.9
4.600% €750 million due 2014	587.9	594.0
3.000% £300 million due 2015	298.6	-
2.500% US\$500 million due 2015	306.4	-
12.450% £300 million due 2016	344.6	356.3
4.125% €500 million due 2016	405.6	417.0
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	397.5	397.1
4.000% CAD400 million due 2019	244.8	-
6.000% £400 million due 2020	395.5	-
9.200% £250 million due 2021	278.1	280.6
4.875% US\$1,000 million due 2021	610.5	639.3
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	842.2	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	737.5	737.3
Total non-current	9,758.5	7,130.6
Total borrowings	10,147.8	7,963.2

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

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

8 Borrowings *continued*

The maturity dates of the bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and the Company. 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
Bonds	10,147.8	12,018.4	7,963.2	8,845.6

The fair values of listed borrowings are based on quoted prices at balance sheet date.

The Company has provided security to the Bond Trustee (as trustee for the Issuer Secured Creditors).

9 Derivative financial instruments

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2012				
Current				
Index-linked swaps	396.4	-	(39.6)	(39.6)
	396.4	-	(39.6)	(39.6)
Non-Current				
Cross-currency swaps	3,503.1	290.5	(30.5)	260.0
Interest rate swaps ¹	2,026.0	322.3	(322.3)	-
Index-linked swaps ²	5,066.1	236.2	(668.8)	(432.6)
	10,595.2	849.0	(1,021.6)	(172.6)
	10,991.6	849.0	(1,061.2)	(212.2)
31 December 2011				
Current				
Cross-currency swaps	680.2	170.9	-	170.9
	680.2	170.9	-	170.9
Non-Current				
Cross-currency swaps	2,078.2	368.7	(4.7)	364.0
Interest rate swaps ¹	973.8	29.4	(29.4)	-
Index-linked swaps ²	5,253.9	189.0	(643.5)	(454.5)
	8,305.9	587.1	(677.6)	(90.5)
	8,986.1	758.0	(677.6)	80.4

¹ £2,026.0 million (2011: £973.8 million) notional value of interest rate swaps relate to hedges with Heathrow.

² £3,173.0 million (2011: £3,048.0 million) notional value of index-linked swaps relate to hedges with Heathrow.

The Company does not apply hedge accounting in relation to any of its derivative financial instruments.

Cross-currency swaps

Cross currency swaps have been entered into by the Company to hedge currency risk on interest and principal payments of foreign currency-denominated bond issues.

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

9 Derivative financial instruments *continued*

Index-linked swaps

Index linked swaps have been entered into to mitigate the risk of mismatch between Heathrow's aeronautical income and regulatory asset base which are directly linked to changes in the retail price index, and nominal debt and interest payments.

Interest rate swaps

Current interest rate swaps have been entered into to hedge against variability in interest cash flows on current borrowings and future debt issuances within the SP Group.

10 Stated capital

	£
Authorised	
At 1 January and 31 December 2012	
Unlimited number of shares with no par value of one class, designated as ordinary shares	-
Called up, allotted and fully paid	
At 1 January and 31 December 2012	
2 ordinary shares at £1 each	2

11 Profit and loss reserve

	£m
1 January 2012	16.9
Profit for the year	53.4
31 December 2012	70.3

12 Ultimate parent undertaking

The immediate parent undertaking is Heathrow (SP) Limited, a company registered in England and Wales.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (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 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 parent undertaking of 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, Heathrow Finance plc and Heathrow (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW, United Kingdom.

Heathrow Funding Limited (Formerly BAA Funding Limited)

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

13 Summary cash flow statement

	Note	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Operating profit		53.4	46.3
Adjustments for:			
Fair value gain on financial instruments		(63.2)	(50.7)
Derivative prepayment amortisation		38.3	60.3
Movement in accrued interest on derivative financial instruments		22.7	11.3
Amortisation of cost/premium on bonds		34.4	43.0
Amortisation of cost/premium on BLA advances		(20.4)	(42.1)
Increase in interest receivable	5	(88.6)	(54.2)
Decrease/(increase) in other debtors	5	0.1	(0.1)
Increase in interest payable on borrowings	6	61.6	42.5
Movement in amounts owed to group undertakings - non-interest bearing		(35.9)	(56.2)
Net increase in amounts owed by group undertakings		(2,369.7)	(1,508.4)
Net cash outflow from operating activities before financing		(2,367.3)	(1,508.3)
Financing			
Net proceeds from issuance of bonds		3,077.2	1,507.0
Repayment of bonds		(680.2)	-
Net settlement of accretion on index-linked swaps		(71.6)	(15.0)
Restructuring and cancellation of derivatives		21.8	16.4
Other financing flows		20.1	-
Net movement in cash		-	0.1