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

Company registration number: 05757208

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Contents

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Officers and professional advisers

Directors
Akbar Abbas Al Baker
Stuart Baldwin
Christopher Beale
David Begg
Ali Bouzarif
Renaud Faucher
Jorge Gil
Bing Hu
Jose Leo
Ernesto Lopez
Rachel Lomax
Colin Matthews
Santiago Olivares
Sir Anthony Nigel Rudd

Richard Agutter	(Alternate to Akbar Abbas Al Baker)
Chin Hau Boon	(Alternate to Stuart Baldwin)
Samuel Coxe	(Alternate to Christopher Beale)
Charles Dupont	(Alternate to Renaud Faucher)
Iñigo Meirás	(Alternate to Jorge Gil)
Simon Riggall	(Alternate to Christopher Beale)
Dapeng Xu	(Alternate to Bing Hu)

Secretary
Carol Hui

Registered office
The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Bankers
The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

Business review

Heathrow Airport Holdings Limited ('Heathrow Airport Holdings' or the 'Company', formerly BAA Limited) is the holding company of a group of companies that provide and manage regulated (the 'Designated') and non-regulated (the 'Non-Designated') airport facilities in the UK. The Heathrow Airport Holdings group (the 'Group') is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

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 Limited become Heathrow Airport Holdings Limited on 21 September 2012.

The financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). 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 control 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

In order to provide a more meaningful comparison of the Group's performance between 2011 and 2012 the information presented below focuses on the adjusted performance of the Group's continuing operations combined with that of Stansted airport. It excludes the operations of Edinburgh Airport Limited ('Edinburgh airport'), which was classified as held for sale in 2011 and sold on 31 May 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 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, 2012 saw disposal processes for Edinburgh and Stansted airports either initiated or completed. In May 2012, Edinburgh airport was sold to Global Infrastructure Partners for £807 million. In August 2012, a disposal process for Stansted airport commenced which led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million.

Management review *continued*

Key features of the year *continued*
Work intensified through the year both 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 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.

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 £8 billion since late 2009 enabling repayment of the loan facilities put in place for the London airports 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 shareholders for the first time since it was acquired by the Ferrovial-led consortium in 2006.

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

Passengers by airport (millions)	**Year ended 31 December 2012**	Year ended 31 December 2011	Change (%)[1]
Heathrow	**70.0**	69.4	0.9
Stansted	**17.5**	18.0	(3.2)
Total Designated airport passengers[1]	**87.4**	87.4	-
Glasgow	**7.2**	6.9	4.2
Aberdeen	**3.4**	3.1	8.3
Southampton	**1.7**	1.8	(3.9)
Total Non-Designated airport passengers[1]	**12.2**	11.7	4.1
Total passengers[1]	**99.7**	99.2	0.5
Total passengers by market served (all airports) (millions)			
UK	**13.0**	13.0	(0.2)
Europe[2]	**48.9**	48.6	0.7
Long haul	**37.8**	37.6	0.5
Total passengers[1]	**99.7**	99.2	0.5

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 increased 0.5% to 99.7 million (2011: 99.2 million). Adjusting for the fact that 2012 was a leap year, year on year growth was 0.2%. 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%).

Management review *continued*

Passenger traffic continued

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 set 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 to 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'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 passenger 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%).

Across the Group's three other airports of Glasgow, Aberdeen and Southampton, passenger traffic increased 4.1% to 12.2 million (2011: 11.7 million). Performance was particularly strong at the two Scottish airports, with Aberdeen's traffic up 8.3% to 3.4 million passengers (2011: 3.1 million) and Glasgow's traffic up 4.2% to 7.2 million passengers (2011: 6.9 million). Aberdeen airport benefited from the strength of the local energy based economy and the completion of its runway extension in October 2011. Glasgow airport's increased traffic was driven by increased capacity provided by both easyJet and Jet2 on European routes. Southampton airport experienced a 3.9% reduction in traffic to 1.7 million passengers (2011: 1.8 million) with performance constrained principally by Flybe ceasing to operate on certain routes.

Transforming the Group's airports

The Group's 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.

Management review *continued*

Transforming the Group's airports continued

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 for 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.

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 for 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.

Outside Heathrow, the Group's most significant investment was the renovation and rehabilitation of Glasgow's main taxiway whilst at Aberdeen there was work on a new car rental building and runway re-wiring and at Southampton lighting and IT systems improvement.

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 the proportion of aircraft departing within 15 minutes of schedule being 78% (2011: 79%) 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.

At the Group's three other airports of Glasgow, Aberdeen and Southampton there were also some notable improvements in service standards as well as significant independent endorsement of their service and quality standards, reflecting their focus on continuously improving the service they provide to airlines and passengers.

Glasgow and Aberdeen achieved their highest levels of departure punctuality in over a decade, whilst Glasgow and Southampton achieved their highest average ASQ survey score for overall passenger satisfaction in 2012.

Management review *continued*

Sale of Edinburgh and Stansted airports

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, 2012 saw disposal processes for Edinburgh and Stansted airports either commenced or completed. In May 2012, Edinburgh airport was sold to Global Infrastructure Partners for £807 million. In August 2012, a disposal process for Stansted airport commenced 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.

Proceeds from these disposals either have been or 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 it can add. The potential consequences of this for the UK are stark, undermining its ability to engage with emerging economies that are the engine of global growth with severe consequences for the country's long-term prosperity.

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.

The Group will make its submissions to the Airports Commission during 2013.

Defining Heathrow's development for the next five years

Work intensified through the year both within Heathrow and in consultation with its airline community and the 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 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).

Regulatory and governmental developments continued

Defining Heathrow's development for the next five years continued

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.

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 licenced airports' financial resilience, for example a minimum credit rating requirement, consistent with the themes proposed by the Department for Transport in 2009.

Developments since the 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 Edinburgh and Stansted airports' 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 the Group's revenue, Adjusted EBITDA and operating cash flow driven principally by increases in Heathrow's 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 Group is on track to deliver the expected further improvement in financial performance in 2013

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Financial review

Introduction
The financial review, based on the consolidated financial statements of the Group, provides commentary on the performance of the Group's airports.

Basis of preparation of statutory results
A number of significant events which are highlighted in the Management review and Financial review have impacted the way in which the statutory financial results for 2012 have been presented.

- *Discontinued operations*
  - On 31 May 2012 the Group completed the disposal of Edinburgh airport to Global Infrastructure Partners for a cash consideration of £807 million. Edinburgh airport had been classified as discontinued operations in 2011.
  - On 20 August 2012 the Group announced plans to sell Stansted Airport Limited ('Stansted airport'). The disposal process led to the announcement after the year end that the airport is being sold to Manchester Airports Group for £1,500 million. This transaction is expected to complete by the end of February 2013.
  - As required under IFRS the results and performance of these two airports are included in the results and cash flows of discontinued operations and are therefore reported separately in the Group's consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows.
  - Exceptional items and certain re-measurements include the following:
    - £5 million fair value losses arising from the revaluation of investment properties at Edinburgh and Stansted airports;
    - £4 million costs incurred on the disposal of Stansted airport; and
    - £38 million profit on disposal of Edinburgh airport.

- *Continuing operations*
  - Exceptional items and certain re-measurements include the following:
    - £49 million fair value gains arising from the revaluation of investment properties;
    - £5 million impairment of property, plant and equipment as a result of a change in the expected future use of automated immigration systems at Heathrow in advance of their anticipated sale; and
    - £67 million fair value gains on financial instruments.

Basis of presentation of financial results
In order to provide a clearer indication of the Group's performance between 2011 and 2012, the information presented below focuses on the adjusted performance of the Group's continuing operations combined with that of Stansted airport (together the 'Combined operations'). The review presented excludes other operations that have been sold, primarily Edinburgh airport. A reconciliation from the statutory results has been provided below.

Summary performance

	Year ended 31 December 2012		
	Statutory	**Stansted airport**	**Combined operations**
	£m	**£m**	**£m**
Revenue	2,362	241	2,603
Operating costs	(1,636)	(173)	(1,809)
Exceptional income	-	-	-
Fair value gain/(loss) on investment properties	49	(9)	40
Operating profit	**775**	**59**	**834**
Exceptional items	(5)	(4)	(9)
Net finance costs	(718)	(19)	(737)
Fair value gain on financial instruments	67	4	71
Profit before tax	**119**	**40**	**159**
Tax credit	100	2	102
Profit after tax	**219**	**42**	**261**
Profit for the year from other discontinued operations[1]			**58**
Consolidated profit for the year			**319**

[1] Includes primarily the results of Edinburgh airport as a result of its classification as a discontinued operation.

Financial review *continued*

Summary performance *continued*

	Year ended 31 December 2011		
	Statutory £m	**Stansted airport £m**	**Combined operations £m**
Revenue	2,180	234	2,414
Operating costs	(1,591)	(190)	(1,781)
Exceptional income	30	-	30
Fair value gain/(loss) on investment properties	50	(1)	49
Operating profit	**669**	**43**	**712**
Exceptional impairment	(69)	-	(69)
Net finance costs	(801)	(20)	(821)
Fair value loss on financial instruments	(31)	-	(31)
(Loss)/profit before tax	**(232)**	**23**	**(209)**
Tax credit	181	34	215
(Loss)/profit after tax	**(51)**	**57**	**6**
Loss for the year from other discontinued operations[1]			(36)
Consolidated loss for the year			**(30)**

[1] Includes primarily the results of Edinburgh airport and adjustments relating to other previous disposals of Gatwick airport and BAA Italia as a result of their classification as discontinued operations.

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Combined operations			
Revenue	**2,603**	2,414	7.8
Adjusted operating costs[1]	**(1,263)**	(1,218)	3.7
Adjusted EBITDA[2]	**1,340**	1,196	12.0
Exceptional items	**-**	41	(100.0)
EBITDA	**1,340**	1,237	8.3
Fair value gain on investment properties	**40**	49	(18.4)
Depreciation and amortisation - ordinary	**(546)**	(563)	(3.0)
Exceptional charge	**-**	(11)	(100.0)
Operating profit	**834**	712	17.1
Exceptional items	**(9)**	(69)	(87.0)
Net finance cost	**(737)**	(821)	(10.2)
Fair value gain/(loss) on financial instruments	**71**	(31)	n/a
Profit/(loss) before tax	**159**	(209)	n/a
Tax credit	**102**	215	(52.6)
Profit for the year from Combined operations	**261**	6	4,250.0
Profit/(loss) from other discontinued operations[3]	**58**	(36)	n/a
Consolidated profit/(loss) for the year	**319**	(30)	n/a

[1] Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
[2] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items.
[3] Includes the results of Edinburgh airport and adjustments relating to other previous disposals of Gatwick airport and BAA Italia as a result of their classification as discontinued operations.

Financial review *continued*

Revenue – Combined operations
In the year ended 31 December 2012, revenue increased 7.8% to £2,603 million (2011: £2,414 million). This reflects increases of 10.2%, 4.6% and 4.8% in aeronautical, retail and other income respectively.

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Aeronautical income	**1,506**	1,366	10.2
Retail income	**591**	565	4.6
Other income	**506**	483	4.8
Total	**2,603**	2,414	7.8

Aeronautical income
Aeronautical income increased 10.2% to £1,506 million (2011: £1,366 million). Average aeronautical income per passenger increased 9.7% to £15.12 (2011: £13.78).

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	**1,280**	1,150	11.3	**18.29**	16.57	10.4
Stansted	**133**	127	4.7	**7.64**	7.03	8.7
Total Designated airports	**1,413**	1,277	10.6	**16.16**	14.60	10.7
Glasgow	**44**	42	4.8	**6.16**	6.13	0.4
Aberdeen	**33**	31	6.5	**9.77**	9.99	(2.2)
Southampton	**16**	16	-	**9.79**	9.44	3.6
Total Non-Designated airports	**93**	89	4.5	**7.66**	7.65	0.1
Total airports	**1,506**	1,366	10.2	**15.12**	13.78	9.7

[1] Figures calculated using un-rounded numbers.

Growth in the Group's aeronautical income largely reflects increased tariffs at Heathrow and Stansted supported by the modest increase in passenger traffic. These factors were partially offset by yield dilution at Heathrow.

At the Designated airports, aeronautical income increased 10.6% to £1,413 million (2011: £1,277 million) with income per passenger up 10.7% to £16.16 (2011: £14.60). At Heathrow, the growth primarily reflects 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 for the relevant periods were set. These factors led to aeronautical income being approximately £40 million lower than expected during 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 reflects 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.

At the Group's Non-Designated airports, aeronautical income increased 4.5% to £93 million (2011: £89 million) whilst income per passenger increased 0.1% to £7.66 (2011: £7.65).

Retail income
The Group's retail business enjoyed another good year in 2012 with a 4.2% increase in net retail income per passenger to £5.61 (2011: £5.39) driving a 4.6% increase in retail income to £591 million (2011: £565 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, Aberdeen and Glasgow.

The tables below reconcile retail income with net retail income and analyse retail income by activity.

Financial review *continued*

Retail income *continued*

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

Figures in £m unless otherwise stated	Year ended 31 December 2012	Year ended 31 December 2011	Change %
Airports' retail income	**589**	563	4.6
Other retail income	**2**	2	-
Total retail income	**591**	565	4.6
Total retail expenditure	**(34)**	(33)	(3.0)
Total net retail income	**557**	532	4.7
Fixed wing passengers (million)[1,2]	**99.1**	98.7	0.5
Net retail income per passenger[2]	**£5.61**	£5.39	4.2

1 Excludes helicopter passengers at Aberdeen airport who have no direct access to retail facilities.
2 Figures calculated using un-rounded numbers.

Analysis of retail income

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Car parking	**134**	132	1.5
Duty and tax-free	**144**	136	5.9
Airside specialist shops	**101**	94	7.4
Bureaux de change	**54**	50	8.0
Catering	**53**	50	6.0
Landside shops and bookshops	**28**	29	(3.4)
Advertising	**34**	32	6.3
Car rental	**18**	18	-
Other	**25**	24	4.2
Total	**591**	565	4.6

Heathrow's retail income increased 5.5% to £460 million (2011: £436 million) and NRI per passenger increased 4.3% 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.

Stansted's retail income decreased 1.2% to £82 million (2011: £83 million), outperforming the 3.2% decline in its passenger traffic. Combined with retail expenditure reducing to £7 million (2011: £8 million), this resulted in NRI per passenger increasing 2.8% to £4.27 (2011: £4.15). 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.

Across the Group's Non-Designated airports, gross retail income increased 4.4% to £47 million (2011: £45 million) whilst net retail income per passenger increased 2.3% to £3.69 (2011: £3.60). Strength in retail income reflected significant growth at Glasgow and Aberdeen airports, partially offset by weakness at Southampton airport. Both Glasgow and Aberdeen airports saw significant growth in catering income and strong performances in airside specialist shops, duty and tax-free and car parking. In addition to the effect of the fall in Southampton's passenger traffic, its retail performance also reflected continued weakness in car parking, its most significant retail activity, due to continued competitive pressure following the re-opening in 2011 of South West Trains' car park adjacent to the airport.

Other income

Income from activities other than aeronautical and retail increased 4.8% to £506 million (2011: £483 million). This was driven particularly by operational facilities and utilities income increasing 9.0% to £182 million (2011: £167 million) due mainly to higher demand, back billing and increases in tariffs for electricity. The increase in other income also reflected rail income increasing 4.5% to £116 million (2011: £111 million) and recovery of Olympics baggage related costs at Heathrow.

Financial review *continued*

Adjusted operating costs – Combined operations
Adjusted operating costs exclude depreciation and 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 3.7% to £1,263 million (2011: £1,218 million).

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Employment costs	**511**	497	2.8
Maintenance expenditure	**194**	183	6.0
Utility costs	**118**	120	(1.7)
Rents and rates	**155**	141	9.9
General expenses	**336**	330	1.8
Retail expenditure	**34**	33	3.0
Capitalised costs/other	**(85)**	(86)	(1.2)
Total	**1,263**	1,218	3.7

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 cost 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.

Employment costs were up 2.8%, with a more significant increase in operational staff costs materially offset by reductions in overhead costs. Adjusting for higher non-cash defined benefit pension service charges and one-off costs related to the Olympics, employment costs were close to flat year on year. Increased maintenance expenditure was mainly due to 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 at Heathrow 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.

Adjusted EBITDA – Combined operations

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Change %
Designated airports including Stansted	**1,265**	1,133	11.7
Non-Designated airports	**61**	58	5.2
Other operations	**14**	5	180.0
Total	**1,340**	1,196	12.0

Adjusted EBITDA for the Group for the year ended 31 December 2012 increased 12.0% to £1,340 million (2011: £1,196 million). The significant increase in Adjusted EBITDA from 2011 reflects the effect of achieving turnover growth of 7.8% whilst limiting the increase in adjusted operating costs to just 3.7%.

Exceptional items (including depreciation and impairment charges) – Combined operations
There was a total net £9 million pre-tax charge (2011: £39 million) to the income statement in respect of exceptional items, including impairment charges and other one-off items for the Combined operations with £nil (2011: £30 million credit) included in operating profit and a charge of £9 million (2011: £69 million) below operating profit.

Included within operating profit in 2011 was a gain of £26 million due to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements and a gain of £15 million in respect of the settlement of a loan previously written off, offset by a charge of £11 million relating to the Airtrack rail project which the Group decided not to pursue.

Below operating profit were £9 million (2011: £69 million) of charges. £5 million related to a change in the expected future use of automated immigration systems at Heathrow 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. The remaining £4 million related to legal fees and other separation costs due to the sale of Stansted airport. The 2011 charge of £69 million related to intangible assets and property plant and equipment at Aberdeen and Southampton airports, reflecting the fact that the carrying value of those assets exceeded their estimated recoverable amounts.

Financial review *continued*

Fair value gain on investment properties – Combined operations
Investment properties were valued at fair value by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors. Strutt & Parker were responsible solely for the valuation of residential properties and agricultural land at Stansted airport. Investment properties comprise mainly car parks and airside assets at the Group's airports and are considered less vulnerable to market volatility. The investment property valuation as at 31 December 2012 resulted in a gain of £40 million (2011: £49 million).

Fair value movements on financial instruments – Combined operations
A net fair value gain of £71 million (2011: £31 million loss) on financial instruments has been recognised in financing costs in the income statement. This primarily reflected a gain on index-linked swaps internally designated to hedge the Group's bond issues which do not achieve hedge accounting under IFRS partially offset by the release of hedge reserves on termination of interest rate swaps held at Airport Holdings NDH1 Limited as a consequence of the sale of Edinburgh airport.

Depreciation and amortisation – Combined operations
Depreciation and amortisation excluding exceptional charges was 3.0% lower at £546 million (2011: £563 million). This was due in part to the cessation of depreciation and amortisation charges in relation to Stansted airport after it was classified as held-for-sale in August 2012.

Net finance costs – Combined operations
Net finance costs are discussed below together with net interest paid under 'Net finance costs and net interest paid'.

Taxation – Combined operations
The tax credit recognised for the year was £102 million (2011: £215 million). Based on a profit before tax for the year of £159 million (2011: £209 million loss), this results in a negative effective tax credit rate of 64.2% (2011: 102.9% effective tax rate).

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 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 £128 million, with £144 million credited to the income statement and £16 million charged to equity.

Excluding the impact of the change in tax rate, the tax charge recognised for the year on ordinary activities of £42 million (2011: £67 million) results in an effective tax rate of 26.4% (2011: 32.1%). The tax charge for the year is more than the charge implied by the statutory rate of 24.5% (2011: 26.5%) primarily due to non-deductible expenses partly offset by the release of prior year tax provisions.

Other discontinued operations
Other discontinued operations primarily included the results of Edinburgh airport. Profits in 2012 were £58 million, which included a gain of £38 million on the disposal of the airport. The £36 million loss in 2011 included the impact of an exceptional impairment charge of £101 million to goodwill reflecting the fact that the carrying value of the assets exceeded the estimated recoverable amount based on the business plans at that time.

Dividends
Dividends of £357 million were paid during the year (2011: £49 million).

Pensions
At 31 December 2012, the LHR Airports Limited defined benefit pension scheme (the 'BAA Pension Scheme') had a deficit of £103 million as measured under IAS 19. This compares with a scheme surplus of £39 million at 31 December 2011. The change from a scheme surplus to a deficit is due principally to a fall in the net discount rate. The Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities had a deficit of £30 million at 31 December 2012 (2011: £29 million).

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, the schedule of cash contributions has been reduced to £94 million per annum for 2013 and 2014.

Financial review *continued*

Summary cash flow – Combined operations

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Cash generated from Combined operations[1]	**1,227**	1,113
Taxation	**(6)**	(5)
Net cash generated from other discontinued operations[2]	**15**	46
Net cash flow from Combined operating activities	**1,236**	1,154
Capital expenditure[3]	**(1,175)**	(895)
Investing activities of other discontinued operations and disposal proceeds[4]	**754**	38
Dividends paid	**(357)**	(49)
Net interest paid	**(460)**	(440)
Settlement of accretion on index-linked swaps	**(80)**	(15)
Movement in bonds	**2,677**	1,508
Net movement in other borrowings and other financing items	**(2,431)**	(1,447)
Cancellation and restructuring of derivatives	**(153)**	(114)
Net increase/(decrease) in cash and cash equivalents	**11**	(260)

1 Includes £83 million (2011: £88 million) in relation to Stansted airport.
2 Includes primarily the results of Edinburgh airport as a result of its classification as a discontinued operation.
3 Includes £16 million (2011: £22 million) in relation to Stansted airport.
4 Includes £762 million net proceeds from the sale of Edinburgh airport (2011: includes net £57 million deferred consideration in relation to the sale of Budapest airport and costs relating to the disposal of Gatwick airport).

Cash flow from Combined operating activities
Net cash inflow from Combined operations in the year ended 31 December 2012 increased 10% to £1,227 million (2011: £1,113 million) which compares with the Combined operations Adjusted EBITDA of £1,340 million (2011: £1,196 million).

The reduced conversion of Adjusted EBITDA to operating cash flow compared to 2011 reflects a larger difference between the cash contributions to the defined benefit pension scheme and the net service charge to the income statement and a stronger underlying working capital performance in 2011.

Capital expenditure – Combined operations
In the year ended 31 December 2012, the cash flow impact of the Group's capital investment programme was £1,175 million for the Combined operations (2011: £895 million) with £1,141 million at Heathrow (2011: £843 million), £16 million at Stansted airport (2011: £22 million) and £18 million at its other airports (2011: £30 million).

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.

Disposal of Edinburgh airport
In May 2012 the Group completed the disposal of Edinburgh airport. Net proceeds, after allowing for transaction and separation costs, and cash held by the airport on the date of disposal, was £762 million.

Net debt and liquidity
The analysis below focuses on the Group's external debt and excludes restricted cash. It also excludes index-linked accretion.

During 2012, the Group's nominal net debt increased 2.1% to £11,885 million at 31 December 2012 from £11,636 million at 31 December 2011. The increase in net debt primarily reflects funding of capital investment at Heathrow and making dividend payments, largely offset by the repayment of debt as a result of the sale of Edinburgh airport.

The Group's nominal net debt at 31 December 2012 comprised £10,802 million under bond issues, £1,216 million under various loan facilities and cash at bank and term deposits of £133 million (compared to cash and cash equivalents of £132 million shown on the statement of financial position). Nominal net debt comprised £11,574 million at the Heathrow Finance, formerly BAA (SH), group level (i.e. related to Heathrow and Stansted airports), £356 million at the Airport Holdings NDH1 Limited, formerly BAA (NDH1) Limited, group level (i.e. principally related to the Group's other airports) and £45 million of net cash elsewhere in the Group.

The accounting value (which includes the statement of financial position cash and cash equivalents) of the Group's net debt at 31 December 2012 excluding accrued interest was £12,240 million (2011: £12,157 million).

The average cost of the Group's external gross debt at 31 December 2012 was 4.44% (2011: 4.53%), 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 5.88% (2011: 6.49%). 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.

Financial review *continued*

Net debt and liquidity *continued*

At 31 December 2012, the Group had approximately £1.8 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 distributions, until mid-2015.

Recent financing activities

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 London airports' revolving credit and liquidity facilities. This marked the culmination of a programme that has seen the Group raise nearly £8 billion since late 2009, enabling repayment of loan facilities put in place for the London airports in the 2008 refinancing and putting the Group in its strongest liquidity position for many years.

Twelve 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 London airports' 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.

Following the sale of Edinburgh airport in 2012, the Group has repaid a substantial amount of the term loan at Airport Holdings NDH1 Limited, reducing drawings from £977 million at 31 December 2011 to £279 million at 31 December 2012. Also principally reflecting the sale of Edinburgh airport, the undrawn balances on Airport Holdings NDH1 Limited's revolving credit facilities have been reduced to reflect the revised needs of the business.

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 8.9 years to 9.6 years and reduced the amount of debt falling due within 3 years from £3.7 billion to £2.2 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 certain of the Group's financing agreements.

	Heathrow £m	Stansted £m	Total £m
31 December 2011	12,490	1,360	13,850
31 December 2012	13,471	1,343	14,814

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 finance costs and net interest paid

In the year ended 31 December 2012, the Group's net finance costs before certain re-measurements were £737 million (2011: £821 million), which included £1,079 million (2011: £1,054 million) of interest on external bond and bank debt and related derivatives and £23 million (2011: £27 million) of financing facility fees and other items. These charges were partially offset by £264 million (2011: £232 million) in finance income and £101 million (2011: £28 million) in capitalised interest.

Financial review *continued*

Net finance costs and net interest paid *continued*

Underlying net finance costs were £788 million (2011: £819 million), after adjusting for £101 million (2011: £28 million) in capitalised interest and £50 million (2011: £30 million) in non-cash amortisation of financing fees and bond fair value adjustments. The decrease in underlying net finance costs 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 nominal net debt.

Net interest paid in the year ended 31 December 2012 was £460 million (2011: £440 million). This consisted of £419 million (2011: £375 million) net interest paid on debt at the Heathrow Finance group level, £53 million (2011: £75 million) net interest paid on debt at the Airport Holdings NDH1 Limited group level and £12 million (2011: £10 million) net interest received elsewhere in the Group. The higher interest paid at Heathrow Finance group is due primarily to the overall increase in net debt and timing differences. The lower net interest paid at Airport Holdings NDH1 Limited group is primarily due to the significant reduction in debt in 2012 following the sale of Edinburgh airport and the fact that in 2011 interest payments related to interest accrued over nearly 15 months.

Net interest paid is lower than net finance costs primarily due to an amortisation charge of £38 million (2011: £62 million) in net finance costs relating to prepayments of derivative interest made in earlier periods and a £191 million (2011: £247 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.

Accounting and reporting policies and procedures

This annual report complies with the European regulation to report consolidated financial statements in conformity with IFRS. The consolidated results in the financial statements for the year ended 31 December 2012 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the year ended 31 December 2011. The Group's accounting policies and areas of significant accounting judgements and estimates are detailed within the Group financial statements. The Company accounts are stated under UK GAAP.

Internal controls and risk management

Internal controls and risk management are key elements of the Group's corporate operations. Risk is centrally managed within the Group as part of the corporate services provided under the Shared Services Agreement ('SSA') by a fully dedicated senior team which implements and manages risk closely, setting the guidelines for the Group. The Executive Committee, Board and audit committee ('AC') referred to below relate to the Executive Committee, Board and AC of Heathrow Airport Holdings Limited. Of the four members of the AC all, including the Chair, are non-executive directors. Together they have appropriate competence in accounting and auditing.

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 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 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 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 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.

Internal controls and risk management *continued*

Risk management *continued*
The principal corporate and reputational risks as identified by the Executive Committee are:

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

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

Security risks
Security risks are regarded as critical risks to manage throughout the 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
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 ongoing 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 regulated 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.

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 Group's business operations and funding. To achieve this, the 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 Designated 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 issuance 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.

(d) Funding and liquidity
The Group operates separate financing programmes for its Designated airports (Heathrow and Stansted) and for its Non-Designated airports (Glasgow, Aberdeen and Southampton).

Internal controls and risk management *continued*

Risk management *continued*
Commercial and financial risks continued

1. Designated airports

The Group has established both investment grade (at the Heathrow (SP) level) and sub-investment grade (at Heathrow Finance level) financing platforms for its Designated airports. The Heathrow (SP) platform supports bank term debt, bank revolving credit facilities including a revolving credit facility, bank liquidity facilities, various other loan 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 ongoing basis with formal testing reported to the AC, the Board and Executive Committee.

The Heathrow Finance platform is rated BB+/Ba3 and supports both loan and bond debt.

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 Designated airports have positive cash flows before capital expenditure and maintain at least 12 months' headroom under the revolving credit facility. As at 31 December 2012, cash and cash equivalents were £39 million, undrawn headroom under revolving credit facilities was £1,693 million and undrawn headroom under liquidity facility was £750 million.

2. Non-Designated airports

The Group's Non-Designated airports are financed through term loan and revolving bank facilities totalling £419 million. The Non-Designated airports group is cash positive after capital expenditure. As at 31 December 2012, cash and cash equivalents were £50 million (excluding £25 million in restricted cash) and undrawn headroom under bank credit facilities was £43 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 cash equivalents 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 cash equivalents 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

Colin Matthews
Director

14 February 2013

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 the Group is the provision and management of airport facilities in the UK. The Group is also involved in airport-related property development and operates the Heathrow Express rail link between Heathrow and Paddington, London.

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 20.

Results and dividends
The profit after taxation for the financial year was £319 million (2011: £30 million loss). Dividends of £357 million were paid during the year (2011: £49 million). The statutory results for the year are set out on page 26.

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

Akbar Abbas Al Baker		Appointed 14 January 2013
Stuart Baldwin		
Christopher Beale		
David Begg		
Ali Bouzarif		Appointed 14 January 2013
Richard Drouin		Resigned 20 December 2012
Renaud Faucher		
Jorge Gil		Appointed 20 December 2012
Bing Hu		Appointed 2 November 2012
Wilfried Kaffenberger		Resigned 20 December 2012
Jose Leo		
Rachel Lomax		
Ernesto Lopez		
Colin Matthews		
Santiago Olivares		
Sir Anthony Nigel Rudd (Chairman)		
Nicolás Villén		Resigned 30 November 2012
Richard Agutter	Alternate Director	Appointed 4 February 2013
Chin Hau Boon	Alternate Director	Appointed 11 January 2013
Samuel Coxe	Alternate Director	Appointed 9 November 2012
Charles Dupont	Alternate Director	Appointed 24 January 2013
Iñigo Meirás	Alternate Director	
Simon Riggall	Alternate Director	
Dapeng Xu	Alternate Director	Appointed 12 November 2012

Company Secretary
The company secretary who served during the year and since the year end was Carol Hui.

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.

Directors' report *continued*

Employment policies *continued*
Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, roadshows 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 9 days purchases outstanding at 31 December 2012 (2011: 24 days) based on the average daily amount invoiced by suppliers during the year.

Donations
The Group's charitable donations for the year amounted to £2 million (2011: £2 million). 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).
Communities Trust	£750,000	Provides support for local community projects close to Heathrow Airport Holdings Groups' airports with a priority on funding projects linked to education, the environment and economic generation.
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 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.

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 through Heathrow Airport Holdings Limited's corporate operations and has in place a system of internal controls designed to mitigate these risks. Details of these policies have been disclosed 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 has been disclosed in the Internal controls and risk management section of the Business review and in Note 18 of the Group financial statements.

Subsequent 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 after 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' report *continued*

Directors' indemnity

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

Auditor

Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor Deloitte LLP will be proposed within the period set out in section 485.

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 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

Carol Hui
Company Secretary

14 February 2013

Company registration number: 05757208

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 financial statements in accordance with IFRS as adopted by the European Union and the 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 the Group financial statements, International Accounting Standard ('IAS') 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the parent company 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 corporate 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

Carol Hui
Company Secretary

14 February 2013

Independent auditor's report to the members of Heathrow Airport Holdings Limited

We have audited the Group financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union.

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 Group 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 Group 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 Group'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 misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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 Group 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 Airport Holdings 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

14 February 2013

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Consolidated income statement for the year ended 31 December 2012

		Year ended 31 December 2012			Restated[1] Year ended 31 December 2011		
	Note	**Before certain re-measurements £m**	**Certain re-measurements[2] £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements[2] £m	Total £m
Continuing operations							
Revenue	*1*	**2,362**	**-**	**2,362**	2,180	-	2,180
Operating costs	*2*	**(1,636)**	**-**	**(1,636)**	(1,561)	-	(1,561)
Other operating items							
Fair value gain on investment properties	*9*	**-**	**49**	**49**	-	50	50
Operating profit	*1*	**726**	**49**	**775**	619	50	669
Analysed as:							
Operating profit before exceptional items		**726**	**49**	**775**	589	50	639
Exceptional items	*3*	**-**	**-**	**-**	30	-	30
Exceptional impairment	*3*	**(5)**	**-**	**(5)**	(69)	-	(69)
Financing							
Finance income	*4a*	**264**	**-**	**264**	232	-	232
Finance costs	*4a*	**(982)**	**-**	**(982)**	(1,033)	-	(1,033)
Fair value gain/(loss) on financial instruments	*4b*	**-**	**67**	**67**	-	(31)	(31)
		(718)	**67**	**(651)**	(801)	(31)	(832)
Profit/(loss) before tax		**3**	**116**	**119**	(251)	19	(232)
Taxation before change in tax rate		**(28)**	**4**	**(24)**	61	(8)	53
Change in tax rate		**106**	**18**	**124**	111	17	128
Taxation	*5*	**78**	**22**	**100**	172	9	181
Profit/(loss) for the year from continuing operations[3]		**81**	**138**	**219**	(79)	28	(51)
Profit/(loss) from discontinued operations[3,4]	*6*	**121**	**(21)**	**100**	13	8	21
Consolidated profit/(loss) for the year[3]		**202**	**117**	**319**	(66)	36	(30)

[1] Information restated to include Stansted airport in discontinued operations.
[2] Certain re-measurements consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and the related tax impact of these and similar cumulative prior year items.
[3] Attributable to equity holders of the parent.
[4] Includes primarily the results of Stansted and Edinburgh airports, and adjustments relating to other previous disposals of Gatwick airport and BAA Italia as a result of their classification as discontinued operations.

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Note	**Year ended 31 December 2012 £m**	Year ended 31 December 2011 £m
Profit/(loss) for the year		**319**	(30)
Other comprehensive income:			
Available-for-sale investments[1]			
Loss taken to equity	*27*	**-**	(2)
Cash flow hedges[1]			
Losses taken to equity	*27*	**(302)**	(344)
Transferred to income statement	*27*	**307**	109
Actuarial (loss)/gain on pensions[2]	*27*	**(166)**	3
Movement in currency translation reserve[1]	*27*	**-**	7
Change in tax rate[2]	*27*	**(16)**	(9)
Tax relating to indexation of operating land[2]	*27*	**-**	4
Other comprehensive loss for the year net of tax		**(177)**	(232)
Total comprehensive gain/(loss) for the year[3]		**142**	(262)

[1] Elements that may be recycled to the consolidated income statement in future periods were £5 million gain (2011: £230 million loss).
[2] Elements that may not be recycled to the consolidated income statement in future periods were £182 million loss (2011: £2 million).
[3] Attributable to equity holders of the parent.

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27.

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Consolidated statement of financial position as at 31 December 2012

	Note	31 December 2012 £m	31 December 2011 £m
Assets			
Non-current assets			
Property, plant and equipment	*8*	**10,996**	11,035
Investment properties	*9*	**2,068**	2,535
Intangible assets	*10*	**3,062**	3,301
Available-for-sale investments	*11*	**27**	27
Retirement benefit surplus	*20*	**-**	39
Derivative financial instruments	*17*	**322**	381
Trade and other receivables	*13*	**120**	105
		16,595	17,423
Current assets			
Inventories	*12*	**8**	9
Trade and other receivables	*13*	**290**	302
Derivative financial instruments	*17*	**-**	171
Restricted cash	*14*	**34**	29
Cash and cash equivalents	*15*	**132**	128
		464	639
Assets classified as held-for-sale	*24*	**1,593**	901
Total assets		**18,652**	18,963
Liabilities			
Non-current liabilities			
Borrowings	*16*	**(12,123)**	(11,626)
Derivative financial instruments	*17*	**(1,158)**	(1,298)
Deferred income tax liabilities	*19*	**(1,196)**	(1,560)
Other pension and post-retirement benefit obligations	*20*	**(133)**	(29)
Provisions	*22*	**(5)**	(6)
Trade and other payables	*23*	**(7)**	(1)
		(14,622)	(14,520)
Current liabilities			
Borrowings	*16*	**(721)**	(1,080)
Derivative financial instruments	*17*	**(91)**	-
Provisions	*22*	**(9)**	(16)
Current income tax liabilities		**(126)**	(137)
Trade and other payables	*23*	**(555)**	(549)
		(1,502)	(1,782)
Liabilities associated with assets classified as held-for-sale	*24*	**(263)**	(181)
Total liabilities		**(16,387)**	(16,483)
Net assets		**2,265**	2,480
Equity			
Capital and reserves			
Share capital	*25*	**2,666**	2,666
Fair value and other reserves	*26*	**(478)**	(470)
Retained earnings	*28*	**77**	284
Total shareholders' equity		**2,265**	2,480

These financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 14 February 2013. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Consolidated statement of changes in equity for the year ended 31 December 2012

	Note	Attributable to owners of the Company			
		Share capital £m	**Other reserves £m**	**Retained earnings £m**	**Total £m**
1 January 2011		2,666	(234)	359	2,791
Comprehensive income:					
Loss for the year		-	-	(30)	(30)
Other comprehensive income:					
Loss on re-measurement of the following:					
Available-for-sale investments	*27*	-	(2)	-	(2)
Cash flow hedges net of tax	*27*	-	(235)	-	(235)
Actuarial gain on pensions net of tax	*27*	-	-	3	3
Currency translation	*27*	-	7	-	7
Change in tax rate	*27*	-	(6)	(3)	(9)
Tax relating to indexation of operating land	*27*	-	-	4	4
Total comprehensive income		-	(236)	(26)	(262)
Transactions with owners:					
Dividends paid	*7,28*	-	-	(49)	(49)
Total transactions with owners		-	-	(49)	(49)
1 January 2012		**2,666**	**(470)**	**284**	**2,480**
Comprehensive income:					
Profit for the year		**-**	**-**	**319**	**319**
Other comprehensive income:					
Profit on re-measurement of the following:					
Available-for-sale investments	*27*	**-**	**-**	**-**	**-**
Cash flow hedges net of tax	*27*	**-**	**5**	**-**	**5**
Actuarial loss on pensions net of tax	*27*	**-**	**-**	**(166)**	**(166)**
Currency translation	*27*	**-**	**-**	**-**	**-**
Change in tax rate	*27*	**-**	**(13)**	**(3)**	**(16)**
Tax relating to indexation of operating land	*27*	**-**	**-**	**-**	**-**
Total comprehensive income		**-**	**(8)**	**(150)**	**(142)**
Transactions with owners:					
Dividends paid	*7,28*	**-**	**-**	**(357)**	**(357)**
Total transactions with owners		**-**	**-**	**(357)**	**(357)**
31 December 2012		**2,666**	**(478)**	**77**	**2,265**

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Consolidated statement of cash flows for the year ended 31 December 2012

	Note	**Year ended 31 December 2012 £m**	Restated[1] Year ended 31 December 2011 £m
Cash flows from operating activities			
Cash generated from continuing operations	*30*	**1,144**	1,025
Taxation			
Group relief paid		**(6)**	(5)
Cash generated from discontinued operations		**98**	134
Net cash from operating activities		**1,236**	1,154
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(1,114)**	(833)
Investment properties		**(9)**	(30)
Intangible assets		**(37)**	(11)
Proceeds on disposal of:			
Property, plant and equipment		**1**	-
Investing activities of discontinued operations and disposal proceeds		**738**	17
Net cash used in investing activities		**(421)**	(857)
Cash flow from financing activities			
Dividends paid		**(357)**	(49)
Proceeds from issuance of bonds		**3,357**	1,508
Repayment of bonds		**(680)**	-
Drawdown of revolving credit facility		**307**	-
(Repayment)/drawdown of capital expenditure facilities		**(1,377)**	119
(Repayment)/drawdown of subordinated facilities		**(98)**	50
Repayment of facilities and other items		**(1,230)**	(1,366)
Decrease in amount owed to parent		**(30)**	(250)
Cancellation and restructuring of derivatives		**(153)**	(99)
Settlement of accretion on index-linked swaps		**(80)**	(15)
Interest paid		**(445)**	(430)
Interest received		**3**	9
Financing activities of discontinued operations		**(21)**	(34)
Net cash used in financing activities		**(804)**	(557)
Net increase/(decrease) in cash and cash equivalents		**11**	(260)
Cash and cash equivalents at beginning of year		**157**	417
Cash and cash equivalents at end of year	*15*	**168**	157
Represented by:			
Cash and cash equivalents – continuing operations		**166**	157
Cash and cash equivalents – discontinued operations		**26**	-
Overdrafts – continuing operations		**(24)**	-
Cash and cash equivalents at end of year		**168**	157

[1] Information restated to include Stansted airport in discontinued operations.

Accounting policies for the year ended 31 December 2012

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

Basis of accounting

The Group financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU') and prepared under the historical cost convention, except for investment properties, available-for-sale assets, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

Primary financial statements format

The primary financial statements are presented in accordance with 'IFRS' and International Accounting Standard ('IAS') 1 'Presentation of Financial Statements'.

A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses. These items are:

i fair value gains and losses on investment property revaluations and disposals;
ii derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and
iii the associated tax impacts of the items in (i) and (ii) above and similar cumulative prior year items.

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 has adequate resources to continue in operational existence for the foreseeable future.

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

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including the 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 Recent financing activities in the Finance review and Note 18).

As a result of the review, having made appropriate enquiries of management, the directors have a reasonable expectation that sufficient funds will be available to meet the Group's funding requirement for the twelve months following the date the consolidated statement of financial position was signed.

Changes in accounting policy and disclosures

(a) Amended standard adopted by the Group

The Group has adopted the following amended IFRS as of 1 January 2012 that did not have had a material impact on the Group's financial statements.

- Amendment to IAS 1 Financial Statement Presentation – splits presentation of items recognised in Other Comprehensive Income between those recyclable to profit and loss and those that are not.

(b) Standards, amendment and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

The following standards, amendments and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IAS 27 Separate Financial Statements;
- IAS 28 Investments in Associates and Joint Ventures;
- IFRS 9 Financial Instruments;
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- Transitional guidance (amendments to IFRS 10, IFRS 11 and IFRS 12);
- IFRS 13 Fair Value Measurement;
- IAS 19 Revised Employee Benefits;
- IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities;
- IFRS 7 (amended) Disclosures - Offsetting Financial Assets and Financial Liabilities;
- IFRS 1 (amended) Government Loans;
- Amendment to IAS 12 Deferred Tax: recovery of underlying assets – description of the impact of the changes; and
- Improvements to IFRS 2009-2011.

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

Changes in accounting policy and disclosures *continued*
The adoption of IAS 19 Revised will impact the presentation of pensions related gains and losses in the income statement and statement of other comprehensive income. For the restated year ended 31 December 2012, the lower expected return of assets will reduce the level of pension income that is recognised in profit and loss leading to a higher net expense of approximately £16 million before tax. The amounts recognised in other comprehensive income will reduce by £16 million. There is no expected change in the balance sheet as a result of implementing IAS19R.

The adoption of Amendment to IAS 12 will impact the measurement of deferred tax on investment properties. For the restated year ended 31 December 2012, this is expected to reduce the deferred tax liabilities by £54 million.

The adoption of IFRS 9 will impact both the measurement and disclosures of financial instruments. No decision has been made by the Group regarding early adoption although the earliest mandatory effective date for any phase of IFRS 9 is 1 January 2015.

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

Business combinations
Basis of consolidation
The Group financial statements consolidate the financial statements of Heathrow Airport Holdings Limited and all its subsidiaries together with any share of profits (net of interest and tax) and net assets of joint ventures undertakings accounted for using the equity method.

Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Inter-group balances and transactions of the continuing operations are eliminated during the consolidation process.

Transactions with non-controlling interests
Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's share of equity. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

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

Segment reporting
For the purposes of Group reporting, the reportable segments are consistent with those operating segments reported upon on a monthly basis to the chief operating decision-maker. The chief operating decision-maker is considered to have responsibility for allocating resources and assessing performance of the operating segments and has been identified as the Board.

The Group's operating segments are organised according to their regulatory environment, type of operation, and geographic location. The operating segments are primarily the individual airports and Heathrow Express ('HEX') which are organised and managed separately on the basis of the above operating environment. As such, the following operating segments are reported to the Board on a monthly basis:
- Designated group (price regulated airport of Heathrow and HEX rail operations);
- Non-Designated group (Glasgow, Aberdeen and Southampton airports);
- other operations (corporate activities, BAA Lynton Limited and other commercial operations); and
- discontinued operations (Edinburgh and Stansted airports in 2012 and primarily Edinburgh airport in 2011).

Revenue
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Aeronautical
- Passenger charges based on the number of departing passengers on departure.
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on a combination of weight and time parked as provided.
- Other charges levied for passenger and baggage 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 period is provided.
- Other invoiced sales, recognised on the performance of the service.

Other
- Rail ticket sales, recognised at the time of travel.
- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery.

Grants and contributions
On occasion, the Group may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public.

Exceptional items
On the face of the income statement, the Group presents exceptional items separately. 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 that do not qualify as discontinued operations, 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.

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

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

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and available for use. Such borrowing costs are 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 income statement as a depreciation expense over the life of the relevant asset.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

Assets classified as held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management are committed to the sale and the sale is expected to be completed within one year of the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Discontinued operations

Discontinued operations consist of business segments and other non-core assets that have either been sold during the year or are classified as held-for-sale at year end.

Property, plant and equipment

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. 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, and at least every six months, 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.

Property, plant and equipment *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:

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Computer software	3–7 years
Other land and buildings	
Short leasehold properties	Period of lease
Leasehold improvements	Lower of useful economic life or lease period

The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Impairment of assets (excluding goodwill)

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 cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal 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 a cash-generating unit exceeds its recoverable amount, the cash-generating unit 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 change in the estimates used to determine 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.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the reporting date, as determined at the interim and full-year reporting dates by the directors and by external valuers every year. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Investment properties *continued*

Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Goodwill and Right to Operate

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Identifiable assets, liabilities and contingent liabilities are grouped in cash generating units being individual Designated and Non-Designated airports and other operations which are organised and managed separately. Goodwill arising on acquisition of subsidiaries is capitalised as an intangible asset and carried at cost less accumulated impairment losses. Goodwill is not amortised but is subject to an impairment review at least annually, or more frequently if there is an indication that the carrying value of goodwill may be impaired and indicators of potential impairment are ordinarily market based. Any impairment is recognised immediately in the income statement. An impairment loss recognised in respect of goodwill is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Right to operate

Right to operate relates to the Non-Designated airports' permission to levy charges indefinitely on airline carriers for the use of airport infrastructure. Right to operate is not amortised but is subject to an annual impairment test. Any impairment loss is charged immediately in the income statement. An impairment loss recognised in respect of this indefinite life intangible asset is only revised if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Internally-generated intangible assets

Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

- an intangible asset is created that can be separately identified; and
- it is probable that the intangible asset created will generate future economic benefits; and
- the development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Asset management contracts

Intangible assets in respect of airport asset management contracts represent the right to operate externally-owned airports and certain assets for the period of the contracts and are amortised on a straight-line basis over the remaining lives of the contracts, subject to impairment.

Other intangible assets

Intangible assets acquired separately or as a result of a business acquisition are capitalised at cost which is considered to equal their fair value at that date. Where amortisation is charged on these assets, the expense is taken to the income statement through operating costs.

Indefinite-lived assets

Assets with an indefinite useful life are considered to be those assets that are expected to indefinitely contribute to the generation of cash flows. Intangible assets with an indefinite useful life are not amortised but are subjected to an impairment test on at least an annual basis.

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.

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

Leases *continued*

Group as a lessee continued

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

Inventories

Inventories are stated at the lower of cost and net realisable value.

Restricted cash

Cash that can only be used for a specific purpose or where access is restricted is classified as restricted cash.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts.

Deferred income

Contractual income is treated as deferred income and released to the income statement as earned.

Provisions

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

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the on-going activities of the entity.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Financial instruments

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

Investments

On initial recognition, financial assets are measured at fair value, plus, in the case of investments not at fair value through the income statement, directly attributable transaction costs. After initial recognition, investments that are classified as 'held-for-trading' and 'available-for-sale' are measured at fair value. Fair value gains or losses on investments held-for-trading are recognised in the income statement. Fair value gains or losses on available-for-sale investments are recognised in a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative fair value gain or loss previously reported in equity is included in the income statement. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indication that the security is impaired. If impairment is indicated, the cumulative fair value gain or loss previously reported in equity is included in the income statement.

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

Financial instruments *continued*
Investments continued
Assets classified as 'loans and receivables' or 'held-to-maturity' are recognised in the statement of financial position at their amortised cost, using the effective interest rate method, less any provision for impairment.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are carried at amortised cost using the effective interest method. Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold-to-maturity are classified as 'held-to-maturity' and are carried at amortised cost using the effective interest method. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are de-recognised or impaired, as well as through the amortisation process.

For investments that are traded in an active market, fair value is determined by reference to quoted market bid prices at the reporting date. For investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows, or by reference to the current market value of similar investments.

Purchases and sales of investments are recognised on trade-date being the date on which the Group commits to purchase or sell the asset.

Investments are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the sale and the sale is expected to be completed within one year of the date of classification. Assets classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all of other liabilities.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings with a maturity date 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 income statement over the period of the borrowings using the effective interest 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 income statement.

Bond issue costs
Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

Trade and other payables
Trade and other payables are non-interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:
- fair value hedges, where they hedge exposure to changes in the fair value of the hedged asset or liability; or
- cash flow hedges, where they hedge exposure to variability in cash flows that are either attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

Financial instruments *continued*

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, 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 method is used is amortised in the income statement 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 income statement.

Amounts accumulated in equity are recycled in the income statement 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 income statement. 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 income statement.

Derivatives at fair value through the income statement

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their gross amounts in finance costs and finance income in the income statement.

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 IAS 39 *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.

Employee benefits

Pension obligations

The Group operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution pension schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The total cost of defined contribution pension arrangements are fully expensed as employment costs. The Group has no further payment obligations once the contributions have been paid.

The Group's primary defined benefit UK pension fund is a self-administered defined benefit scheme now closed to new employees. The defined benefit obligation or surplus is calculated quarterly by independent actuaries using the projected unit credit method. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the statement of financial position. Any difference between the expected return on assets and that actually achieved is recognised in the statement of comprehensive income as an actuarial gain or loss along with differences which arise from experience or assumption changes.

The amount of income or expenditure recognised in the income statement as employment costs, in relation to the defined benefit pension scheme, comprises the current service costs, past service costs, the interest cost less the Group's long-term expected return on assets.

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

Employee benefits *continued*

Pension obligations continued

The Group also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the scheme rules. In addition, the Group provides post-retirement medical benefits to certain pensioners.

Share based payments

The option plans are accounted for as cash-settled share-based payment transactions in accordance with the grant being made over Ferrovial S.A. shares and the Group has an obligation to settle the share-based payment transaction.

For cash-settled share-based payments, a liability is recognised for the services acquired, measured initially at the fair value of the liability. At each statement of financial position date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the income statement for the year.

The Group has a number of cash-settled equity swaps that are treated as derivative financial instruments and are intended to hedge the future cash flows required on potential exercise of the options. The fair value of these equity swap arrangements is recorded in the statement of financial position with the gain or loss incurred in the period recorded within financial income or expense.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxation is determined using the tax rates and laws that have been enacted or substantively enacted, by the reporting date, and are expected to apply when the related deferred tax asset or liability is realised or settled.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Share capital

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

Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the shareholders' right to receive payment of the dividend is established. Interim dividends are recognised when paid.

Foreign currency

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

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale investments, are recognised in equity within the fair value reserve.

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

Foreign currency *continued*
The results of Group entities (none of which has a functional currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (Sterling) are translated into Sterling at the average exchange rate and the statements of financial position are translated at exchange rates at the reporting date. Exchange differences arising on retranslation are taken directly to a separate component of equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates at the reporting date.

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 fair value 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 consideration of IFRS 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.

Estimated impairment of goodwill and indefinite life intangible assets
The Group annually tests whether goodwill has suffered any impairment, as stated in the Accounting policies. The recoverable amounts of cash-generating units have been determined based on fair value less cost to sell. These calculations require the use of assumptions, the details of which have been disclosed in Note 10, together with sensitivity analysis where appropriate.

Pensions
Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period end and future returns on pension scheme assets and charges to the income statement. The factors have been determined in consultation with the Group's actuary taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the statement of comprehensive income. Further details are available within Note 20.

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 country specific 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 liabilities.

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, £642 million of fair value losses (2011: £594 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 income statement.

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

Classification of disposal group as held for sale
The Group exercises judgement to determine when groups of assets are actively marketed in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. Assets, or groups of assets, are considered to be actively marketed once there is a board approval and an expectation of the disposal has been raised in those directly affected by the disposal.

1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the Board for allocating resources and assessing performance. These segments are organised according to their regulatory environment, type of operation, geographic location and funding arrangements and are largely split between the 'Designated' and 'Non-Designated' groups.

The 'other operations' segment consists of corporate activities, BAA Lynton Limited and other commercial operations.

The performance of the above segments is measured on a revenue and EBITDA basis, before certain re-measurements, and both pre and post exceptional items.

The reportable segments derive their revenues from a number of sources including aeronautical, retail, property and facilities (including property income and utilities income) and other (includes railway income) products and services, and this information is also provided to the Board on a monthly basis.

During the year, the Group classified Stansted airport as assets held-for-sale. The performance of this disposal group is distinguished from the performance of continuing Group operations in the annual report through classification as discontinued operations.

Table (a) details total revenue from external customers for the year ended 31 December 2012 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2011.

Table (c) details depreciation and amortisation, fair value adjustments, and profit and loss on disposals by reportable segment. The fair value adjustment information is not provided to the Board by reportable segment, but is included in this note as additional information.

Table (d) details asset, liability and capital expenditure information by reportable segment. The assets and liabilities information by segment is not provided to the Board.

Section (e) details revenue and non-current asset information by geographical segment.

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

1 Segment information *continued*

Table (a) Year ended 31 December 2012

	Segment revenue					EBITDA		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional items £m	Operating exceptional items £m	Post exceptional items £m
Designated group								
Heathrow	1,280	460	265	63	**2,068**	1,103	-	**1,103**
Heathrow Express	-	-	-	116	**116**	66	-	**66**
	1,280	460	265	179	**2,184**	1,169	-	**1,169**
Non-Designated group								
Glasgow	44	28	11	4	**87**	32	-	**32**
Aberdeen	33	11	8	5	**57**	21	-	**21**
Southampton	16	8	2	1	**27**	8	-	**8**
	93	**47**	**21**	**10**	**171**	**61**	**-**	**61**
Other operations	-	2	-	5	**7**	14	-	**14**
Total	**1,373**	**509**	**286**	**194**	**2,362**	**1,244**	**-**	**1,244**

Reconciliation to statutory information

Unallocated income and expenses	
Depreciation and amortisation (Note 1 table 1 (c))	**(518)**
Operating profit (before certain re-measurements)	**726**
Fair value gain on investment properties (certain re-measurements)	**49**
Exceptional impairment	**(5)**
Finance income	**264**
Finance costs	**(982)**
Fair value gain on financial instruments (certain re-measurements)	**67**
Profit before tax	**119**
Taxation before certain re-measurements	**78**
Taxation (certain re-measurements)	**22**
Taxation	**100**
Profit for the year – continuing operations	**219**
Profit from discontinued operations (Note 6)	**100**
Consolidated profit for the year	**319**

Revenues of approximately £711 million (2011: £563 million restated) were derived from a single external customer by the Group's continuing operations and are included in the Heathrow, Glasgow and Aberdeen segments above. A further £5 million (2011: £9 million restated) was derived from the same customer by discontinued operations.

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

1 Segment information *continued*

Table (b) Year ended 31 December 2011 restated[1]

	Segment revenue					EBITDA		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional items £m	Operating exceptional items[2] £m	Post exceptional items £m
Designated group								
Heathrow	1,150	436	250	59	1,895	982	-	982
Heathrow Express	-	-	-	111	111	64	-	64
	1,150	436	250	170	2,006	1,046	-	1,046
Non-Designated group								
Glasgow	42	26	11	4	83	30	-	30
Aberdeen	31	10	7	5	53	18	-	18
Southampton	16	9	2	1	28	10	-	10
	89	45	20	10	164	58	-	58
Other operations	-	1	-	9	10	6	41	47
Total	1,239	482	270	189	2,180	1,110	41	1,151

Reconciliation to statutory information

Unallocated income and expenses	
Depreciation and amortisation (Note 1 table 1 (c))	(532)
Operating profit (before certain re-measurements)	619
Fair value gain on investment properties (certain re-measurements)	50
Exceptional impairment	(69)
Finance income	232
Finance costs	(1,033)
Fair value loss on financial instruments (certain re-measurements)	(31)
Loss before tax	(232)
Taxation before certain re-measurements	172
Taxation (certain re-measurements)	9
Taxation	181
Loss for the year – continuing operations	(51)
Profit from discontinued operations (Note 6)	21
Consolidated loss for the year	(30)

[1] Information restated to include Stansted airport in discontinued operations.
[2] Operating exceptional items for statutory reporting purposes include an £11 million charge included within depreciation and amortisation as compared to £nil for segmental reporting.

Heathrow Airport Holdings Limited (Formerly BAA Limited)

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

1 Segment information *continued*

Table (c)	**Year ended 31 December 2012**			Year ended 31 December 2011 restated[1]		
	Depreciation & amortisation[2] £m	**Fair value gain/ (loss)[3] £m**	**Profit on disposals £m**	Depreciation & amortisation[2] £m	Fair value gain/ (loss)[3] £m	Profit on disposals £m
Designated group						
Heathrow	**441**	**49**	**1**	458	47	-
Heathrow Express	**42**	**-**	**-**	40	-	-
	483	**49**	**1**	498	47	-
Non-Designated group						
Glasgow	**21**	**3**	**-**	21	3	-
Aberdeen	**9**	**3**	**-**	6	1	-
Southampton	**3**	**(6)**	**-**	5	(1)	-
	33	**-**	**-**	32	3	-
Other operations	**2**	**-**	**-**	2	-	-
Continuing operations	**518**	**49**	**1**	532	50	-
Discontinued operations	**28**	**(5)**	**38**	62	6	9
Total Group	**546**	**44**	**39**	594	56	9

[1] Information restated to include Stansted airport in discontinued operations.
[2] Includes intangible asset amortisation of £20 million (2011: £22 million restated), and for Heathrow includes £nil million in relation to an exceptional charge (2011: £11 million) incurred on the Airtrack rail project which the Group decided not to pursue. Refer to Note 3.
[3] Reflects fair value gains and losses on investment properties only.

Table (d)	**31 December 2012**			31 December 2011		
	Assets[2] £m	**Liabilities £m**	**Capital expenditure £m**	Assets[2] £m	Liabilities £m	Restated[1] Capital expenditure £m
Designated group						
Heathrow	**14,379**	**(435)**	**1,144**	13,500	(441)	904
Heathrow Express	**1,026**	**(5)**	**16**	1,063	(6)	11
Stansted[1]	**-**	**-**	**-**	1,581	(31)	-
	15,405	**(440)**	**1,160**	16,144	(478)	915
Non-Designated group						
Glasgow	**572**	**(15)**	**9**	580	(21)	11
Aberdeen	**308**	**(11)**	**4**	311	(9)	12
Southampton	**125**	**(5)**	**3**	130	(6)	3
	1,005	**(31)**	**16**	1,021	(36)	26
Other operations	**134**	**(105)**	**-**	122	(56)	-
Discontinued operations[1]	**1,593**	**(263)**	**25**	901	(181)	32
Total operations	**18,137**	**(839)**	**1,201**	18,188	(751)	973
Unallocated assets and liabilities:						
Cash, borrowings and available-for-sale investments	**193**	**(12,844)**		184	(12,706)	
Derivative financial instruments	**322**	**(1,249)**		552	(1,298)	
Retirement benefit (obligations)/surplus	**-**	**(133)**		39	(29)	
Taxation	**-**	**(1,322)**		-	(1,697)	
Total Group	**18,652**	**(16,387)**	**1,201**	18,963	(16,481)	973

[1] At 31 December 2012 the assets and liabilities of Stansted airport have been classified within discontinued operations (2011: Edinburgh airport) and therefore the 2011 capital expenditure balances have been restated accordingly.
[2] Segment assets include primarily airport runways and facilities as well as goodwill and right to operate allocated to the reportable segments.

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

1 Segment information *continued*

Section (e)
Heathrow Airport Holdings Limited is domiciled in the UK. All revenue from external customers comes from the UK which for the year ended 31 December 2012 was £2,362 million (2011: £2,180 million restated). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

Non-current assets excluding derivative financial instruments and post-employment benefit assets were £16,273 million (2011: £17,003 million). There were no non-current assets held outside the UK (2011: £nil).

2 Operating costs – continuing operations

	Year ended 31 December 2012 £m	Restated[1] Year ended 31 December 2011 £m
Operating costs (including exceptional items) include the following:		
Employment costs		
Wages and salaries	**338**	325
Social security	**34**	31
Pensions	**44**	11
Share-based payments	**1**	1
Contract and agency staff	**20**	21
Other staff related	**19**	26
	456	415
Depreciation and amortisation		
Property, plant and equipment	**498**	510
Intangible assets	**20**	22
	518	532
Other operating costs		
Retail expenditure	**27**	25
Retail marketing	**5**	6
Maintenance expenditure	**182**	173
Insurance	**16**	17
Other marketing and communications	**20**	17
Rents and rates	**139**	126
Utility costs	**99**	100
Police	**32**	33
Aerodrome navigation service charges	**76**	73
General expenses	**150**	128
Own work capitalised[2]	**(84)**	(84)
	662	614
Total operating costs	**1,636**	1,561
Analysed as:		
Adjusted operating costs	**1,118**	1,070
Depreciation and amortisation	**518**	521
Exceptional income[3]	**-**	(30)
Total operating costs	**1,636**	1,561

[1] Information restated to include Stansted airport in discontinued operations.
[2] Own work capitalised includes £62 million (2011: £67 million restated) in relation to employment costs, including contract and agency staff.
[3] Refer to Note 3. In 2011, exceptional income included £11 million charge relating to the Airtrack rail project which the Group decided not to pursue.

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

2 Operating costs – continuing operations *continued*

Rentals under operating leases

	Year ended 31 December 2012 £m	Restated[1] Year ended 31 December 2011 £m
Operating costs include:		
Plant and machinery	**28**	27
Other	**20**	17
	48	44
Property lease and sub lease charges – minimum lease payments	**20**	17

[1] Information restated to include Stansted airport in discontinued operations.

Auditor's remuneration

	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 Group's annual accounts		
The audit of the Company's subsidiaries pursuant to legislation[2]	**0.5**	0.5
Total audit fees	**0.5**	0.5
Fees payable to the Company's auditor and their associates for other services to the Group		
Audit related assurance services	**0.2**	0.1
Tax compliance services	**-**	0.1
Other tax services	**-**	0.1
Other assurance services	**0.3**	0.3
Other services	**-**	0.1
Total non-audit fees	**0.5**	0.7
Total fees[3]	**1.0**	1.2

[1] The presentation of the balances for the year ended 31 December 2011 has been restated to comply with amended disclosure requirements.
[2] Fees payable to the Company's auditors for the audit of the Company's annual accounts was £21,000 (2011: £20,000).
[3] Auditor's remuneration includes services provided for both continuing and discontinued operations.

Employee numbers

The average monthly number of employees (including executive directors) within the Group was as follows:

	Year ended 31 December 2012	Restated[1] Year ended 31 December 2011
Continuing operations		
United Kingdom		
Airports	**6,089**	6,054
Other operations	**1,317**	1,391
Discontinued operations		
United Kingdom		
Airports	**1,308**	1,592
	8,714	9,037

[1] Information restated to include Stansted airport in discontinued operations.

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

2 Operating costs – continuing operations *continued*

Management and directors remuneration

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Key management compensation[1]		
Salaries and benefits[2,3]	**7,734**	8,387
Sum paid to related parties for directors' services	**1,200**	1,200
Termination benefits	**-**	398
	8,934	9,985

[1] Key management for the Company is the Board of Directors and members of the Executive Committee of Heathrow Airport Holdings Limited who control and direct the Group's operational activities and resources.
[2] Salaries and benefits includes accrued salaries, allowances, director fees, company pension contributions, bonuses and amounts payable under long term incentive plans ('LTIP').
[3] £1,734,000 of bonus was paid in cash in 2012 (2011: £1,571,000).

Key management participates in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three to five year period. For the year ended 31 December 2012, key management's compensation includes £552,000 payable in 2013 (2011: £670,000 paid in 2012) in respect of the 2010 Plan after certain targets were met over the three year period from 2010 to 2012. As the financial performance in respect of the 2011 and 2012 Plans is uncertain at this stage, no value in relation to these awards is included above.

Directors' remuneration

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Aggregate emoluments[1,2]	**3,457**	3,472
Value of company pension contributions to defined contribution scheme	**-**	-
Sums paid to related parties for directors' services	**1,200**	1,200
	4,657	4,672

[1] Aggregate emoluments includes accrued salaries, allowances, director fees, bonuses and amounts payable under long term incentive plans.
[2] £874,000 of bonus was paid in cash in 2012 (2011: £128,000).

The directors participate in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity targets and other operational targets over a three to five year period. For the year ended 2012, the directors' remuneration includes £237,000 payable in 2013 (2011: £254,000 paid in 2012) in respect of the 2010 Plan after certain targets were met over the three year period from 2010 to 2012. As the financial performance in respect of the 2011 and 2012 Plans is uncertain at this stage, no value in relation to these awards is included above.

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

Highest paid director

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Salary and allowances	**1,102**	1,060
Value of company pension contributions to defined contribution scheme	**-**	-
Bonus accrued	**771**	735
Amount received under Company LTIP	**237**	254
	2,110	2,049

In 2012 no company pension contributions were made in respect of the highest paid director (2011: none) but an amount was instead paid within salary and allowances. During the year, the highest paid director had no retirement benefits accruing to him under a defined benefit scheme and no retirement benefits accruing to him under a defined contribution scheme.

2 Operating costs – continuing operations *continued*

Management and directors remuneration continued

£735,000 of bonus was paid in cash in 2012 (2011: £nil).

The highest paid director participates in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three to five year period. For the year ended 31 December 2012, the highest paid director's remuneration includes £237,000 payable in 2013 (2011: £254,000 paid in 2012) in respect of the 2010 Plan after certain targets were met over the three year period from 2010 to 2012. As the financial performance in respect of the 2011 and 2012 Plans is uncertain at this stage, no value in relation to these awards is included above.

3 Exceptional items – continuing operations

	Note	**Year ended 31 December 2012 £m**	Year ended 31 December 2011 £m
Accelerated depreciation and amortisation		**-**	(11)
Settlement of a loan previously written off		**-**	15
Past service credit	*20a*	**-**	26
Total operating exceptional items before income tax		**-**	30
Impairment of property, plant and equipment	*8*	**(5)**	(23)
Impairment of intangible assets	*10*	**-**	(46)
Total non-operating exceptional items before income tax		**(5)**	(69)
Tax credit on exceptional items		**1**	7
Total exceptional items after tax		**(4)**	(32)

The £5 million impairment of property, plant and equipment was a result of a change in the expected future use of automated immigration systems at Heathrow 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.

The 2011 £11 million charge was in relation to the Airtrack rail project which the Group decided not to pursue. The exceptional income of £15 million related to the settlement of a loan previously written off. The past service credit of £26 million related to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements (see Note 20a). Finally, the £69 million non-operating impairment charges in 2011 related to other intangible assets and property, plant and equipment at Aberdeen and Southampton airports, reflecting the fact that the carrying value of these assets exceeded their estimated recoverable amount based on their business plans (see Notes 8 and 10).

4 Financing – continuing operations
(a) Net finance costs

	Year ended 31 December 2012 £m	Restated[1] Year ended 31 December 2011 £m
Finance income		
Income from available-for-sale financial assets	**2**	2
Income from other financial assets	**-**	3
Interest receivable on derivatives not in hedge relationship	**261**	225
Interest on deposits	**1**	2
	264	232
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[2]	**(556)**	(445)
Bank loans and overdrafts and related hedging instruments	**(209)**	(241)
Interest payable on derivatives not in hedge relationship[3]	**(296)**	(350)
Facility fees and other charges	**(22)**	(25)
Total borrowing costs	**(1,083)**	(1,061)
Less: capitalised borrowing costs[4] (Note 8)	**101**	28
	(982)	(1,033)
Net finance costs before certain re-measurements	**(718)**	(801)

1 Information restated to include Stansted airport in discontinued operations.
2 Includes total accretion of £18 million (2011: £15 million) arising from index-linked bonds.
3 Includes total accretion of £173 million (2011: £232 million) arising from index-linked swaps.
4 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 4.94% compared to 2.13% for the previous year.

(b) Fair value gain/(loss) on financial instruments

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Interest rate swaps: cash flow hedge[1]	**(66)**	3
Cross-currency swaps: cash flow hedge[1]	**2**	12
Cross-currency swaps: fair value hedge[1]	**3**	31
Index-linked swaps: not in hedge relationship	**109**	(89)
Equity swaps	**19**	20
Fair value re-measurements of foreign exchange contracts and currency balances	**-**	(8)
Total fair value gain/(loss) on financial instruments	**67**	(31)
Net finance costs	**(651)**	(832)

1 Hedge ineffectiveness on derivatives in hedge relationships. The amount in 'Interest rate swaps: cash flow hedge' mainly relates to the release of hedge reserves to the income statement resulting from the termination of certain swaps held at the Airport Holdings NDH1 group due to the reduction of the Non-Designated facilities following the sale of Edinburgh airport.

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

5 Taxation – continuing operations

	Year ended 31 December 2012 £m	Restated[1] Year ended 31 December 2011 £m
UK corporation tax		
Current tax at 24.5% (2011: 26.5%)	**13**	9
Over provision in respect of prior years	**(9)**	(11)
Deferred tax		
Current year	**19**	(57)
Prior year	**1**	6
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**(124)**	(128)
Taxation credit for the year	**(100)**	(181)

[1] Information restated to include Stansted airport in discontinued operations.

	Year ended 31 December 2012 £m	Restated[1] Year ended 31 December 2011 £m
Profit/(loss) before tax	**119**	(232)

The tax credit on the Group's profit/(loss) before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits/(losses) of the Group:

Reconciliation of the tax credit		
Tax calculated at the UK statutory rate of 24.5% (2011: 26.5%)	**29**	(62)
Adjustments in respect of current income tax of previous years	**(9)**	(11)
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	**(124)**	(128)
Non-deductible expenses	**3**	14
Adjustments in respect of deferred income tax of previous years	**1**	6
Taxation credit for the year	**(100)**	(181)

[1] Information restated to include Stansted airport in discontinued operations.

The tax credit recognised for the year was £100 million (2011: £181 million). Based on a profit before tax for the year of £119 million (2011: £232 million loss), this results in a negative effective tax rate of 84.0% (2011: 78.0% effective tax rate).

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 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 £108 million, with £124 million credited to the income statement and £16 million charged to equity.

Excluding the impact of the change in tax rate, the tax charge recognised for the year on ordinary activities of £24 million (2011: £53 million credit) results in an effective tax rate of 20.2% (2011: 22.8%). The tax charge is less than implied by the statutory rate of 24.5% (2011: 26.5%) primarily due to the release of prior year tax provisions offset by non-deductible expenses.

6 Discontinued operations

Discontinued operations represent components of the Group that have been disposed of or classified as held-for-sale during the year. In accordance with IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', the results and cash flows of these 'disposal groups' are reported separately from the performance of continuing operations at each reporting date.

On 31 May 2012 the Group completed the disposal of its 100% shareholding in Edinburgh Airport Limited ('Edinburgh airport') to Global Infrastructure Partners for a cash consideration of £807 million, generating a profit on disposal of £38 million. Edinburgh airport had been classified within discontinued operations in 2011.

On 20 August 2012 the Group announced plans to sell its 100% shareholding in Stansted Airport Limited ('Stansted airport'). The disposal process led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million. This transaction is expected to complete by the end of February 2013. The balances below for the year ended 31 December 2011 have been restated to include Stansted airport within discontinued operations.

The results from all discontinued operations which have been included in the consolidated income statement have been disclosed below. The profit on disposal of Edinburgh airport has been disclosed in Note 6b.

(a) Net profit from discontinued operations

	Year ended 31 December 2012			Restated[1] Year ended 31 December 2011		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	**284**	**-**	**284**	344	-	344
Operating costs						
Depreciation and amortisation	**(28)**	**-**	**(28)**	(62)	-	(62)
Other	**(173)**	**-**	**(173)**	(207)	-	(207)
Other items						
Fair value (loss)/gain on investment properties	**-**	**(5)**	**(5)**	-	6	6
Operating profit from discontinued operations	**83**	**(5)**	**78**	75	6	81
Exceptional impairment[2]	**-**	**-**	**-**	(101)	-	(101)
Exceptional disposal costs[3]	**(4)**	**-**	**(4)**	-	-	-
Profit on disposal of operations[4]	**38**	**-**	**38**	9	-	9
Financing						
Finance costs	**(19)**	**-**	**(19)**	(20)	-	(20)
Fair value gain on financial instruments	**-**	**4**	**4**	-	-	-
	(19)	**4**	**(15)**	(20)	-	(20)
Profit/(loss) before tax from discontinued operations	**98**	**(1)**	**97**	(37)	6	(31)
Tax credit/(charge) on profit/(loss) from discontinued operations	**23**	**(20)**	**3**	50	2	52
Net profit/(loss) from discontinued operations	**121**	**(21)**	**100**	13	8	21

1 Information restated to include Stansted airport in discontinued operations. Discontinued operations also included results for Edinburgh airport and adjustments relating to other previous disposals of Gatwick airport and BAA Italia.
2 This related to the impairment of goodwill in Edinburgh airport reflecting the fact that its carrying value exceeded the estimated recoverable amount of its assets based on its latest business plan (refer to Note 10).
3 These were incurred due to the Stansted airport disposal process.
4 Attributable primarily to the disposals of Edinburgh airport in 2012, and Gatwick airport and BAA Italia in 2011.

The net assets of the Stansted airport discontinued operations have been disclosed in Note 24.

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

6 Discontinued operations *continued*
(b) Profit on disposal of Edinburgh airport

	31 December 2012 £m	Total £m
Cash consideration		**807**
Book value of Edinburgh airport		
Property, plant and equipment	457	
Investment properties	168	
Intangible assets, including goodwill	271	
Other assets	11	
Cash and cash equivalents	8	
Deferred income tax liabilities	(155)	
Other liabilities	(18)	
Net assets		**(742)**
Transaction and separation costs		**(27)**
Profit on disposal		**38**

The cash flows attributable to all discontinued operations have been separately disclosed in the consolidated statement of cash flows.

7 Dividends
£357 million dividends were paid during 2012 (2011: £49 million).

8 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings[1] £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
1 January 2011		8,305	1,493	309	88	1,251	1,570	13,016
Additions		3	-	9	-	-	920	932
Transfers to completed assets		538	18	71	7	14	(648)	-
Borrowing costs capitalised	*4*	-	-	-	-	-	28	28
Disposals		(1)	-	-	(1)	-	-	(2)
Transfers from investment properties	*9*	-	-	-	6	-	-	6
Transferred to assets held-for-sale		(405)	(150)	(35)	(7)	-	(25)	(622)
1 January 2012		**8,440**	**1,361**	**354**	**93**	**1,265**	**1,845**	**13,358**
Additions		**2**	**-**	**8**	**-**	**-**	**1,135**	**1,145**
Transfers to completed assets		**411**	**21**	**24**	**12**	**2**	**(470)**	**-**
Borrowing costs capitalised	*4*	**-**	**-**	**-**	**-**	**-**	**101**	**101**
Disposals		**(23)**	**(1)**	**(15)**	**-**	**(4)**	**(2)**	**(45)**
Net transfer to investment properties	*9*	**-**	**-**	**-**	**-**	**-**	**(63)**	**(63)**
Reclassifications		**113**	**(119)**	**(2)**	**(11)**	**(1)**	**21**	**1**
Transferred to assets held-for-sale		**(753)**	**(52)**	**(76)**	**12**	**(17)**	**(50)**	**(936)**
31 December 2012		**8,190**	**1,210**	**293**	**106**	**1,245**	**2,517**	**13,561**
Depreciation and impairment								
1 January 2011		(1,383)	(220)	(112)	(28)	(160)	-	(1,903)
Charge		(390)	(54)	(66)	(7)	(53)	-	(570)
Impairment	*3*	(16)	(7)	-	-	-	-	(23)
Disposals		1	-	1	-	-	-	2
Reclassifications		-	1	(1)	-	-	-	-
Transferred to assets held-for-sale		105	41	23	2	-	-	171
1 January 2012		**(1,683)**	**(239)**	**(155)**	**(33)**	**(213)**	**-**	**(2,323)**
Charge		**(375)**	**(46)**	**(54)**	**(7)**	**(42)**	**-**	**(524)**
Impairment	*3*	**-**	**-**	**(3)**	**-**	**-**	**(2)**	**(5)**
Disposals		**23**	**1**	**15**	**-**	**4**	**2**	**45**
Reclassifications		**(43)**	**33**	**2**	**3**	**5**	**-**	**-**
Transferred to assets held-for-sale		**162**	**3**	**50**	**13**	**14**	**-**	**242**
31 December 2012		**(1,916)**	**(248)**	**(145)**	**(24)**	**(232)**	**-**	**(2,565)**
Net book value								
31 December 2012		**6,274**	**962**	**148**	**82**	**1,013**	**2,517**	**10,996**
31 December 2011		6,757	1,122	199	60	1,052	1,845	11,035

[1] Other land and buildings are freehold except for certain short leasehold properties with a net book value of £15 million (2011: £17 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 the terminal 3 integrated baggage system which incorporates new baggage facility.

Impairment

The £5 million impairment of property, plant and equipment was a result of a change in the expected future use of automated immigration systems at Heathrow, 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 (refer to Note 3).

The 2011 impairment of £23 million reflected the fact that the carrying value of these assets exceeded their estimated recoverable amount based on their latest business plans.

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £1,323 million (2011: £1,280 million). 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 4.94% compared to 2.13% for the previous year.

A tax deduction of £101 million (2011: £28 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 16.

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

9 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
1 January 2011		2,619	6	2,625
Additions		28	1	29
Transferred to completed assets		2	(2)	-
Disposals		(5)	-	(5)
Net transfers to property, plant and equipment	*8*	(6)	-	(6)
Revaluation gain[1]		53	-	53
Transferred to assets held-for-sale		(161)	-	(161)
1 January 2012		**2,530**	**5**	**2,535**
Additions		**9**	**-**	**9**
Net transfers from property, plant and equipment	*8*	**(2)**	**65**	**63**
Revaluation[2]		**41**	**3**	**44**
Transferred to completed assets		**5**	**(5)**	**-**
Disposals		**(2)**	**-**	**(2)**
Transferred to assets held-for-sale		**(581)**	**-**	**(581)**
31 December 2012		**2,000**	**68**	**2,068**

[1] £4 million related to Edinburgh airport prior to its classification as discontinued operations in 2011. A further £3 million valuation gain at Edinburgh airport was recorded subsequently. £1 million loss related to Stansted airport (Note 6).
[2] £5 million loss related to Stansted airport prior to its classification as discontinued operations in 2012. A further £4 million valuation loss at Stansted airport was recorded subsequently (Note 6).

Airport investment properties were valued at fair value by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors. Strutt & Parker were responsible solely for the valuations of residential property and agricultural land at Stansted airport.

Details of valuations performed are provided below:

	31 December 2012 £m	31 December 2011 £m
CB Richard Ellis	**2,561**	2,612
Strutt & Parker	**84**	87
At professional valuation[1]	**2,645**	2,699

[1] £577 million related to investment properties held by Stansted airport, which have been classified as discontinued operations (2011: £164 million, relating to investment properties held by Edinburgh airport). Refer to Note 24.

All valuations were prepared in consideration of IFRS 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. There were no restrictions on the realisability or remittance of income or proceeds on disposal.

The group has historically had a low level of void properties.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £2 million (2011: £2 million) for which a similar amount is included within operating costs.

Included in investment properties are assets with a fair value of £52 million (2011: £58 million) which the Group has provided as security for the £30 million debentures due 2017 on behalf of a subsidiary. Security granted by the Group over its assets, including investment properties, is disclosed in Note 16.

10 Intangible assets

	Note	Goodwill £m	Right to operate £m	Software costs £m	Retail contracts £m	Other £m	Total £m
Cost							
1 January 2011		3,315	624	146	132	7	4,224
Additions		-	-	12	-	-	12
Transferred to assets held-for-sale		(223)	(147)	-	(5)	-	(375)
1 January 2012		**3,092**	**477**	**158**	**127**	**7**	**3,861**
Additions		**-**	**-**	**37**	**-**	**-**	**37**
Reclassifications		**-**	**-**	**74**	**-**	**-**	**74**
Transferred to assets held-for-sale		**(250)**	**-**	-	**(12)**	**(1)**	**(263)**
Disposals		**-**	**-**	**(5)**	**-**	**(1)**	**(6)**
31 December 2012		**2,842**	**477**	**264**	**115**	**5**	**3,703**
Amortisation and impairment							
1 January 2011		(89)	(243)	(95)	(64)	(2)	(493)
Charge for the year		-	-	(9)	(14)	(1)	(24)
Impairment	*6,3*	(101)	(46)	-	-	-	(147)
Transferred to assets held-for-sale		101	-	-	3	-	104
1 January 2012		**(89)**	**(289)**	**(104)**	**(75)**	**(3)**	**(560)**
Charge for the year		**-**	**-**	**(13)**	**(6)**	**-**	**(19)**
Reclassifications		**-**	**-**	**(74)**	**-**	**-**	**(74)**
Disposals		**-**	**-**	**5**	**-**	**1**	**6**
Transferred to assets held-for-sale		**-**	**-**	-	**6**	**-**	**6**
31 December 2012		**(89)**	**(289)**	**(186)**	**(75)**	**(2)**	**(641)**
Net book value							
31 December 2012		**2,753**	**188**	**78**	**40**	**3**	**3,062**
31 December 2011		3,003	188	54	52	4	3,301

Goodwill and right to operate

Goodwill relates to the excess of the purchase consideration paid over the carrying values of the net assets of Heathrow Airport Holdings Limited which was acquired in June 2006 and represents the potential for long term growth in the infrastructure and passenger traffic and tariffs.

Right to operate relates to the non regulated airports' permission to levy charges on airline carriers for the use of airport infrastructure.

Goodwill and right to operate are allocated to the Group's cash-generating units (CGUs), identified as the individual airports.

A summary of the movements in the allocation is presented below:

	31 December 2011		Transfers[1]	31 December 2012	
Business segments	**Right to operate £m**	**Goodwill £m**	**Goodwill £m**	**Right to operate £m**	**Goodwill £m**
UK					
Regulated airports	-	3,003	(250)	**-**	**2,753**
Heathrow	-	2,753	-	**-**	**2,753**
Stansted	-	250	(250)	**-**	**-**
Non-regulated airports	188	-	-	**188**	**-**
Glasgow	101	-	-	**101**	**-**
Aberdeen	87	-	-	**87**	**-**
	188	3,003	(250)	**188**	**2,753**

[1] Transferred to assets held-for-sale.

The recoverable amount of the airports has been calculated using the fair value less cost to sell methodology. Fair value for the airports has been calculated using the Adjusted Present Value (APV) methodology based on the cash flow projections of the relevant business plans over the period until year 2038. Management believes this is an appropriate period for a projection to provide the real value of a business that requires significant capital expenditure over a long period of time. The cash flows have been discounted at mid period and the residual value applied on the last year of the projection has been calculated applying a multiple based on times RAB/EBITDA where relevant (1.15xRAB/13xEBITDA).

10 Intangible assets *continued*

Goodwill and right to operate continued

An impairment test is a comparison of the carrying value of the assets of a CGU, that is, the individual airports, to their recoverable amount calculated as fair value less cost to sell. When the recoverable amount is less than the carrying value, impairment exists. Carrying values of goodwill and right to operate for each airport were tested for impairment as at 31 December 2012. Any resulting impairment charges were applied first to goodwill and, where no goodwill remained, to the right to operate. No impairment charges resulted for any airport.

Heathrow

The Budget for 2013 plus the Interim Business Plan extending until March 2019, which was approved by the Board in July 2012, is the starting point of the projection for Heathrow. For future regulatory periods the business plan is prepared on the basis of the ‘Building Blocks’ approach, in the same way the CAA applies it in the five yearly regulatory reviews. The profitability of these regulated assets, using this approach, is determined by the existing Regulatory Asset Base (RAB), the future Capital Investment Programme and the regulatory return, and traffic forecast.

Key assumptions

In determining the fair value of the airports, management makes a number of assumptions based on recent experience and is consistent with relevant external sources of information. The key assumptions used in determining the recoverable amounts are:

- Capital expenditure
- From 2019 onwards a series of major projects covering the maintenance and replacement of existing assets have been included in order to add capacity to the existing infrastructure to meet forecast demand while maintaining the quality of the service. Current plans are to spend approximately £7 billion (in current prices) over the next 10 years at the regulated airport.

- Return allowed by the regulator and discount rates
  The assumptions made for the return allowed by the regulator for future five yearly regulatory periods reflects a conservative view of the airport’s cost of capital and expectations of the result of future price determinations. The same return was used as in previous impairment tests. The unlevered discount rate applied to the operational cash flows for the calculation of the recoverable amount is 8.2% (2011: 8.4%).

- Cost of debt
  Long term assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

Sensitivity analysis

The sensitivity of the airports’ fair value to changes in key assumptions has been tested. The most relevant impacts are those related to the increase of capacity, and to the assumed allowed regulatory return. A reduction in the enterprise value for Heathrow in excess of 17% would lead to an impairment of the related intangible assets.

Non designated group

The detailed business plan for the non regulated airports up to December 2017 was approved by the Board in December 2012. Projections beyond 2017 have been prepared using long term operational models which consider passenger estimates prepared by the Forecasting and Statistics team, and high level drivers of revenues and operational costs.

Key assumptions

The key assumptions used in determining the fair value of the non regulated airports are:

- Passenger growth
  Passenger growth is assumed to be 3% on average over the medium term and 2% over the long term.

- Capital expenditure
  The capital expenditure programme to 2017 is determined by each airport. Forecasts beyond 2017 are driven by high level ratios (revenue and operating expense per passenger) and longer-term investment programmes reflect the replacement of existing assets as they depreciate, together with capacity expansion plans in line with the airports’ master plans.

- Inflation
  Inflation projections for the period to December 2016 have been updated for recent forecast trends. Long-term average inflation have been set at 3%.

- Discount rate
  The discount rate for non regulated airports has been calculated applying market references and assuming a 0.70 unlevered beta. The unlevered discount rate applied for the calculation of recoverable amount of the non regulated airports and other operations is 8.7%. Sensitivities to the asset have been run as appropriate. The assumption for the cost of debt is consistent with the current cost of debt throughout the forecast period.

10 Intangible assets *continued*
Non designated group *continued*
Key assumptions continued
As at 31 December 2012, the estimated fair value of Aberdeen, Glasgow and Southampton airports exceeded their carrying values. A reduction in the enterprise value in excess of 7% for these airports would begin to lead to further impairments of their related intangible assets. At 31 December 2011, the estimated fair value or recoverable amounts of Aberdeen and Southampton airports equalled their impaired carrying values.

Software costs
The capitalised computer software costs principally relate to operating and financial software. These assets are being amortised over a period of between three and seven years. Amortisation for the year has been charged through operating costs.

Software costs include assets in the course of construction of £44 million (2011: £33 million).

11 Available-for-sale investments

	2012 **£m**	2011 £m
Unlisted securities		
1 January	**27**	29
Loss recognised in equity	**-**	(2)
31 December	**27**	27

Available-for-sale investments relates to the Group's 4.19% equity interest in National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider. The Group does not exercise significant long-term influence over NATS and accordingly the investment has been classified as an available-for-sale investment.

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031. A rate of 10% (2011: 10%) has been used as the discount factor.

Disclosure of the Group's financial risk management framework that includes the governance of its available-for-sale investments is included in Note 18.

12 Inventories

	31 December 2012 **£m**	31 December 2011 £m
Consumables	**8**	9

The total amount of inventories consumed in the year relating to continuing operations was £7 million (2011: £3 million, restated) and relating to discontinued operations was £3 million (2011: £2 million, restated).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

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

13 Trade and other receivables

	31 December 2012 £m	31 December 2011 £m
Non-current		
Prepayments[1]	**25**	11
Other receivables	**2**	1
Amounts owed by parent entity	**93**	93
	120	105
Current		
Trade receivables	**187**	200
Less: Provision for impairment	**(3)**	(3)
Trade receivables – net	**184**	197
Prepayments	**53**	38
Other receivables	**53**	67
	290	302

[1] Non-current prepayments include £10 million (2011: £11 million) financing fees on facilities not yet drawn. These are amortised over the term of the facility.

The fair value of trade and other receivables are not materially different from the carrying value.

Unless otherwise stated, trade and other receivables do not contain impaired assets.

Trade receivables are non-interest bearing and are generally on 14 day terms. No collateral is held as security.

As at 31 December 2012, trade receivables of £169 million (2011: £158 million) were fully performing. Trade receivables of £10 million (2011: £36 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2012 £m	31 December 2011 £m
Fully performing	**169**	158
Past due but not impaired		
Not impaired but overdue by less than 30 days	**6**	28
Not impaired but overdue by between 30 and 60 days	**4**	4
Not impaired but overdue by more than 60 days	**-**	4
	10	36
Considered for impairment		
Overdue by more than 90 days	**8**	6

Movements in the provision for impairment of trade receivables are as follows:

	2012 £m	2011 £m
1 January	**3**	4
Provision for receivables impairment	**1**	-
Receivables written off during the year as uncollectible	**(1)**	(1)
31 December	**3**	3

As at 31 December 2012, trade receivables of £8 million (2011: £6 million) were considered for impairment of which an amount of £3 million (2011: £3 million) was provided for, with the remaining amount expected to be fully recovered. The individually impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of any provisions for impaired receivables have been included in 'general expenses' in the consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery.

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 18.

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

14 Restricted cash

	31 December 2012 £m	31 December 2011 £m
Cash account	**31**	26
Short-term deposits	**3**	3
	34	29

Restricted cash included excess cash held at Airports Holdings NDH1 group and cash held separately to cover six months of interest on the Non-Designated airports facility, based on its first utilisation in 2008.

15 Cash and cash equivalents

	31 December 2012 £m	31 December 2011 £m
Cash at bank and in hand	**97**	88
Short-term deposits	**35**	40
	132	128

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates their book value.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments, and bank overdrafts. Cash and cash equivalents consist of:

	31 December 2012 £m	31 December 2011 £m
Cash at bank and in hand – continuing operations	**128**	114
Cash at bank and in hand – discontinued operations (Note 24)	**26**	-
Short-term deposits	**38**	43
Bank overdraft (Note 16)	**(24)**	-
	168	157

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

16 Borrowings

	31 December 2012 £m	31 December 2011 £m
Current		
Secured		
Bank loans	**39**	39
Heathrow Funding Limited bonds:		
3.975% €1,000 million due 2012	**-**	835
5.850% £400 million due 2013	**397**	-
Total Heathrow Funding Limited bonds	**397**	835
Unsecured		
Bank loans and overdrafts	**24**	-
Total current (excluding interest payable)	**460**	874
Interest payable	**261**	206
Total current	**721**	1,080
Non-current		
Secured		
Heathrow Funding Limited bonds:		
5.850% £400 million due 2013	**-**	396
4.600% €750 million due 2014	**580**	615
3.000% £300 million due 2015	**299**	-
2.500% US$500 million due 2015	**306**	-
12.450% £300 million due 2016	**358**	374
4.125% €500 million due 2016	**387**	394
4.375% €700 million due 2017	**566**	-
2.500% CHF400 million due 2017	**268**	-
4.600% €750 million due 2018	**597**	612
6.250% £400 million due 2018	**395**	392
4.000% CAD400 million due 2019	**245**	-
6.000% £400 million due 2020	**396**	-
9.200% £250 million due 2021	**311**	311
4.875% US$1,000 million due 2021	**653**	675
1.650% +RPI £180 million due 2022	**184**	-
5.225% £750 million due 2023	**728**	727
7.125% £600 million due 2024	**588**	-
6.750% £700 million due 2026	**682**	681
7.075% £200 million due 2028	**230**	232
6.450% £900 million due 2031	**1,015**	996
Zero-coupon €50 million due January 2032	**42**	-
Zero-coupon €50 million due April 2032	**42**	-
3.334% +RPI £460 million (2011: £365 million) due 2039	**544**	413
5.875% £750 million due 2041	**742**	730
Total Heathrow Funding Limited bonds	**10,158**	7,548
Heathrow Finance plc bonds:		
7.125% £325 million due 2017	**319**	318
5.375% £275 million due 2019	**273**	-
Total Heathrow Finance plc bonds	**592**	318
Total bonds	**10,750**	7,866
Bank loans – Designated airports	**653**	2,244
Bank loans – Non-Designated airports	**373**	1,042
Subordinated facilities	**125**	220
£30 million debenture due 2017	**37**	38
Unsecured		
Other bank loans	**-**	1
Total bank loans	**1,188**	3,545
Total external borrowings	**11,938**	11,411
Borrowings from parent	**185**	215
Total non-current	**12,123**	11,626
Total borrowings (excluding interest payable)	**12,583**	12,500

16 Borrowings *continued*

Heathrow Funding Limited bonds

The maturity dates of the Heathrow Funding Limited bonds 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	**11,938**	**13,458**	11,411	11,915
Borrowings from parent	**185**	**185**	215	215
	12,123	**13,643**	11,626	12,130

The fair value of short-term borrowings approximates book value. Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. 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.

The average cost of the Group's external gross debt at 31 December 2012 was 4.44% (2011: 4.53%), 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 5.88% (2011: 6.49%). 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.

Security 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 of the obligations of the other Obligors.

Heathrow (DSH) Limited and Heathrow Finance plc have also granted security over their assets to secure their obligations under their financing agreements.

BAA Pension Trust Company Limited (the 'BAA Pension Scheme's Trustee') 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.

LHR Airports Limited (formerly BAA Airports Limited) has provided a guarantee to Deutsche Trustee Company Limited (the 'Bond Trustee') for itself and on behalf of the LHR Guaranteed Bondholders in respect of bonds issued by Heathrow Funding Limited (formerly BAA Funding Limited) with scheduled redemption dates up to and including 15 February 2018, other than any such bonds issued since 18 August 2008.

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.

Non Des Topco Limited, formerly BAA (Non Des Topco) Limited, and each of its subsidiaries (other than BAA Lynton Limited) (together, the 'Non-Designated Obligors'), have granted security over their assets to secure their obligations under their financing agreements. Each Non-Designated Obligor, other than Non Des Topco Limited, has provided a cross-guarantee of the obligations of the other Non-Designated Obligors. The BAA Pension Scheme's Trustee has a right to receive up to £50 million out of the proceeds of enforcement of the security granted by the Non-Designated Obligors, such right ranking pari passu with the senior creditors to the Non-Designated Obligors.

Non Des Topco Limited has provided an indemnity to the BAA Pension Scheme's Trustee in respect of pension liabilities.

The £30 million debenture held by BAA Lynton Limited has a principal value of £30 million and is secured on certain properties and other assets of the Group with a fair value of £54 million.

Additional disclosures on risk management and hedging of borrowings are included in Notes 17 and 18.

17 Derivative financial instruments

31 December 2012	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Equity swaps	**133**	**-**	**(52)**	**(52)**
Index-linked swaps	**396**	**-**	**(39)**	**(39)**
Foreign exchange contracts	**34**	**-**	**-**	**-**
	563	**-**	**(91)**	**(91)**
Non-current				
Equity swaps	**9**	**16**	**-**	**16**
Interest rate swaps	**2,611**	**-**	**(466)**	**(466)**
Cross-currency swaps	**3,503**	**290**	**(30)**	**260**
Index-linked swaps	**5,066**	**16**	**(662)**	**(646)**
	11,189	**322**	**(1,158)**	**(836)**
Total	**11,752**	**322**	**(1,249)**	**(927)**

31 December 2011	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Cross-currency swaps	680	171	-	171
Foreign exchange contracts	6	-	-	-
	686	171	-	171
Non-current				
Equity swaps	146	12	(67)	(55)
Interest rate swaps	4,054	-	(583)	(583)
Cross-currency swaps	2,078	369	(5)	364
Index-linked swaps	5,254	-	(643)	(643)
	11,532	381	(1,298)	(917)
Total	12,218	552	(1,298)	(746)

Equity swaps

The Group has entered into a number of equity swaps to hedge Ferrovial share price risk under the Group's Executive Share Option Plan ('ESOP') – refer to Note 21. The total ESOP derivative portfolio consists of 11.7 million shares at a total mark to market liability of £36 million as at 31 December 2012 (2011: £55 million).

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 income statement over the period of the hedged risk.

Index-linked swaps

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

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 these swaps in cash flow hedge relationships will be continuously released to the income statement 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.

18 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments (other than derivatives) comprise bank loans, listed bonds, cash and short-term deposits. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into derivative transactions, principally interest rate swaps, cross-currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The Group has also entered into equity swaps to hedge share price risk under its ESOP.

18 Financial instruments *continued*

Financial risk management objectives and policies continued

The Group mitigates the risk of mismatch between its Designated 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 issuance of inflation linked instruments.

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Group's business operations and funding.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing each of the risks which are summarised below.

Foreign exchange risk

For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge the interest and principal payments. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

As at 31 December 2012, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the Euro, annual pre-tax profit would have decreased or increased by £6 million and £8 million respectively (2011: £1 million decrease and £1 million increase respectively).

As at 31 December 2012, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the USD, annual pre-tax profit would have decreased or increased by £1 million and £1 million respectively (2011: £1 million increase and £nil decrease respectively).

Price risk

The Group is not materially exposed to equity security price risk on investments held by the Group and classified on the consolidated statement of financial position as available-for-sale.

The Group is exposed to share price risk of Ferrovial, S.A., arising from its ESOP programme. The Group uses equity swaps to manage this exposure. As at 31 December 2012, if the Ferrovial share price had strengthened or weakened by 10%, annual pre-tax profit would have increased or decreased by £11 million (2011: £9 million).

The Group is exposed to RPI price risk on its index-linked bonds and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2012, with all other variables remaining constant, if the RPI had increased or decreased by 10%, annual pre-tax profit would have decreased or increased by £188 million and £182 million respectively (2011: £207 million decrease and £200 million increase respectively).

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a mix of fixed to floating rate debt within Board approved parameters such that a minimum of 75% of existing and forecast debt is at a fixed rate. To manage this mix, the Group enters into interest rate swaps. These swaps may be designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Group also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

As at 31 December 2012, the Group's fixed floating interest rate profile, after hedging, on gross debt was 80:20 (31 December 2011: 85:15).

As at 31 December 2012, for each 0.50% change in interest rates, this would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the finance income, finance cost and mark-to-market valuation of derivatives.

	31 December 2012		31 December 2011	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
0.50% increase	**73**	**178**	56	178
0.50% decrease	**(77)**	**(188)**	(60)	(189)

18 Financial instruments *continued*

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. 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 and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents 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 cash equivalents 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 long-term credit ratings below BBB+(S&P)/A(Fitch).

As at 31 December 2012, the Group had total credit risk with derivative counterparties of its interest rate swaps, index linked swaps and cross currency swaps of £306 million (2011: £540 million).

Financial assets past due but not impaired are disclosed in Note 13 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2012 is £765 million (2011: £978 million).

Liquidity risk

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. Further details of the risk management objectives and policies has been disclosed in the Internal controls and risk management section of the Business review.

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent have been met at the relevant date:

	31 December 2012 £m	31 December 2011 £m
Floating rate facilities		
Expiring in one to two years	**-**	1,355
Expiring in more than two years	**1,736**	176
	1,736	1,531

As at 31 December 2012, undrawn overdraft facilities of £10 million were available (2011: £10 million).

The tables below analyse the gross undiscounted contractual cash flows on the Group's financial liabilities and net settled derivative financial instruments as at 31 December to the contractual maturity date.

	31 December 2012			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**436**	**702**	**3,411**	**7,644**
Borrowing interest payments	**628**	**607**	**1,571**	**3,770**
Derivative financial instruments	**95**	**25**	**149**	**(78)**
Trade payables[1]	**195**	**-**	**-**	**-**
Capital payables[1]	**271**	**-**	**-**	**-**

	31 December 2011			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	720	1,831	3,220	6,031
Borrowing interest payments	596	553	1,371	3,586
Derivative financial instruments	(103)	116	118	(259)
Trade payables[1]	222	-	-	-
Capital payables[1]	256	-	-	-

[1] Includes £15 million (2011: £10 million) trade payables and £7 million (2011: £4 million) capital payables classified as held-for-sale. Refer to Note 24.

18 Financial instruments *continued*

Liquidity risk continued

The tables below analyse the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December to the contractual maturity date.

	31 December 2012			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**120**	**120**	**291**	**96**
Cross-currency derivative receipts	**(152)**	**(152)**	**(336)**	**(358)**

	31 December 2011			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	93	75	205	145
Cross-currency derivative receipts	(140)	(106)	(261)	(215)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Group regularly reviews and maintains or adjusts the capital structure as appropriate in order to achieve these objectives.

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to Regulatory Asset Base ('RAB') (for the Group's regulated businesses) and net debt to earnings before interest, tax, depreciation and amortisation ('EBITDA') (for the Group's unregulated businesses). Net debt is external consolidated nominal net debt within the part of the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels including Heathrow Finance plc, Heathrow (SP) Limited and Airport Holdings NDH1 Limited. Gearing ratios of each of these are below:

	31 December 2012	31 December 2011
Net debt to RAB at Heathrow Finance plc	**0.82**	0.79
Total net debt to RAB at Heathrow (SP) Limited	**0.77**	0.75
Senior net debt to RAB at Heathrow (SP) Limited	**0.66**	0.68
Net debt to EBITDA at Airport Holdings NDH1 Limited	**5.85**	9.70

18 Financial instruments *continued*

Financial instruments by category

The Group's financial instruments as classified in the financial statements as at 31 December can be analysed under the following categories:

	31 December 2012				
	Loans and receivables £m	**Assets at fair value through income statement £m**	**Derivatives qualifying for hedge accounting £m**	**Available-for- sale £m**	**Total £m**
Available-for-sale investments	**-**	**-**	**-**	**27**	**27**
Derivative financial instruments	**-**	**32**	**290**	**-**	**322**
Cash and cash equivalents[1]	**192**	**-**	**-**	**-**	**192**
Trade receivables[1]	**211**	**-**	**-**	**-**	**211**
Other receivables[1]	**13**	**-**	**-**	**-**	**13**
Total financial assets	**416**	**32**	**290**	**27**	**765**

	31 December 2012			
	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities at amortised cost £m**	**Total £m**
Borrowings	**-**	**-**	**(12,583)**	**(12,583)**
Derivative financial instruments	**(753)**	**(496)**	**-**	**(1,249)**
Trade payables[1]	**-**	**-**	**(195)**	**(195)**
Capital payables[1]	**-**	**-**	**(271)**	**(271)**
Total financial liabilities	**(753)**	**(496)**	**(13,049)**	**(14,298)**

	31 December 2011				
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Available-for- sale £m	Total £m
Available-for-sale investments	-	-	-	27	27
Derivative financial instruments	-	12	540	-	552
Cash and cash equivalents[1]	157	-	-	-	157
Trade receivables[1]	206	-	-	-	206
Other receivables[1]	36	-	-	-	36
Total financial assets	399	12	540	27	978

	31 December 2011			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	-	(12,500)	(12,500)
Derivative financial instruments	(710)	(588)	-	(1,298)
Trade payables[1]	-	-	(222)	(222)
Capital payables[1]	-	-	(256)	(256)
Total financial liabilities	(710)	(588)	(12,978)	(14,276)

[1] Includes £26 million (2011: £nil) cash and cash equivalents, £27 million (2011: £9 million) trade receivables, £15 million (2011: £10 million) trade payables and £7 million (2011: £4 million) capital payables classified as held-for-sale. Refer to Note 24.

18 Financial instruments *continued*

Financial instruments by category continued

At 31 December 2012, the Group has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The tables below present the Group's assets and liabilities that are measured at fair value as at 31 December:

	31 December 2012			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Assets at fair value through income statement	-	**32**	**-**	**32**
Derivatives qualifying for hedge accounting	-	**290**	**-**	**290**
Available-for-sale investments	-	**-**	**27**	**27**
Total assets	-	**322**	**27**	**349**
Liabilities				
Liabilities at fair value through income statement	-	**(753)**	**-**	**(753)**
Derivatives qualifying for hedge accounting	-	**(496)**	**-**	**(496)**
Total liabilities	-	**(1,249)**	**-**	**(1,249)**

	31 December 2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	12	-	12
Derivatives qualifying for hedge accounting	-	540	-	540
Available-for-sale investments	-	-	27	27
Total assets	-	552	27	579
Liabilities				
Liabilities at fair value through income statement	-	(710)	-	(710)
Derivatives qualifying for hedge accounting	-	(588)	-	(588)
Total liabilities	-	(1,298)	-	(1,298)

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- the fair value of cross-currency and interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

18 Financial instruments *continued*
Fair value estimation continued

The following table presents the changes in Level 3 instruments for the year ended 31 December:

	Note	**2012 £m**	2011 £m
1 January		**27**	29
Loss recognised in equity	*27*	**-**	(2)
31 December		**27**	27

19 Deferred income tax
The net movement on the deferred income tax account is as follows:

	Note	**2012 £m**	2011 £m
1 January		**(1,560)**	(2,040)
(Charged)/credited to income statement[1]		**(41)**	80
Credited to income statement – change in tax rate[2]		**147**	160
Credited to equity	*27*	**45**	83
Charged to equity – change in tax rate	*27*	**(16)**	(9)
Re-allocation to current tax		**-**	6
Transfers to held-for-sale		**234**	160
Disposal of operations		**(5)**	-
31 December		**(1,196)**	(1,560)

[1] Includes £20 million tax charge (2011: £28 million tax credit) relating to discontinued operations.
[2] Includes £23 million (2011: £32 million) tax credit relating to discontinued operations.

The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	**Revaluations of investment property to fair value £m**	**Revaluations of property plant, and equipment £m**	**Fair value of retail contracts and right to operate £m**	**Post employment benefits £m**	**Other £m**	**Total £m**
1 January 2012	**(1,376)**	**(396)**	**(102)**	**(60)**	**(1)**	**(51)**	**(1,986)**
Credited/(charged) to income statement	**54**	**(11)**	**-**	**2**	**(11)**	**6**	**40**
Credited to income statement - change in tax rate	**113**	**25**	**10**	**6**	**10**	**3**	**167**
Credited to equity	**-**	**-**	**-**	**-**	**45**	**-**	**45**
Credited/(charged) to equity – change in tax rate	**-**	**8**	**(1)**	**-**	**(10)**	**1**	**(2)**
Transfers to held-for-sale	**133**	**94**	**5**	**2**	**(4)**	**4**	**234**
Disposal of operations	**(3)**	**-**	**-**	**(2)**	**(1)**	**1**	**(5)**
Transfers to deferred income tax asset	**-**	**-**	**-**	**-**	**(28)**	**-**	**(28)**
31 December 2012	**(1,079)**	**(280)**	**(88)**	**(52)**	**-**	**(36)**	**(1,535)**

19 Deferred income tax *continued*

Deferred income tax assets

	Capital losses £m	Non trade deficit £m	Financial instruments £m	Fair value of long-term borrowings £m	Fair value uplift of bonds £m	Post employment benefits £m	Total £m
1 January 2012	**15**	**136**	**167**	**70**	**38**	**-**	**426**
Charged to income statement	**-**	**(4)**	**(66)**	**(9)**	**(2)**	**-**	**(81)**
(Charged)/credited to income statement – change in tax rate	**(1)**	**(11)**	**1**	**(6)**	**(3)**	**-**	**(20)**
Charged to equity – change in tax rate	**-**	**-**	**(14)**	**-**	**-**	**-**	**(14)**
Transfers from deferred income tax liabilities	**-**	**-**	**-**	**-**	**-**	**28**	**28**
31 December 2012	**14**	**121**	**88**	**55**	**33**	**28**	**339**

Deferred income tax credited/(charged) to equity during the year is as follows:

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Cash flow hedge reserve	**-**	80
Tax relating to indexation of operating land	**-**	4
Retirement benefit obligations	**45**	(1)
Change in tax rate	**(16)**	(9)
	29	74

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 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 £131 million, with £147 million credited to the income statement and £16 million charged to equity.

20 Retirement benefit obligations

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
BAA Pension Scheme (Note 20 (a))	**44**	12
Defined contribution schemes	**6**	5
Additional provision for unfunded schemes	**1**	1
Total operating charge to employment costs[1]	**51**	18

[1] Included within the total operating charge to employment costs are costs associated with discontinued operations. Employment costs relating to the BAA Pension scheme include costs related to discontinued operations of £7 million (restated 2011: £7 million).

	31 December 2012 £m	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m
Fair value of plan assets at end of year	**2,791**	2,691	2,359	2,029	2,082
Benefit obligation at end of year	**(2,894)**	(2,652)	(2,403)	(2,285)	(1,987)
(Deficit)/surplus in BAA Pension Scheme	**(103)**	39	(44)	(256)	95
Unfunded pension obligations	**(24)**	(23)	(19)	(18)	(15)
Post-retirement medical benefits	**(6)**	(6)	(4)	(4)	(5)
Deficit in other pension related liabilities	**(30)**	(29)	(23)	(22)	(20)

(a) BAA Pension Scheme

The Group operates one main defined benefit pension Scheme for its UK employees, the BAA Pension Scheme (the ‘Scheme’), which is a funded defined benefit scheme with both open and closed sections. The Scheme closed to employees joining the Group after 15 June 2008. The Scheme’s assets are held separately from the assets of the Group and are administered by trustees.

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

The value placed on the liabilities of the scheme as at 31 December 2012 is based on a roll forward of the detailed valuation calculations carried out by the trustees as at 30 September 2010 based on individual member data. The liabilities have been calculated by KPMG LLP, to take account of changes in economic and demographic assumptions, in accordance with IAS 19 'Employee Benefits'. The Scheme assets are stated at their bid value at 31 December 2012. The Group's accounting policy is to recognise actuarial gains and losses as they occur in the statement of comprehensive income.

The financial assumptions used to calculate Scheme assets and liabilities under IAS 19 are:

	31 December 2012	31 December 2011
	%	%
Rate of increase in pensionable salaries	**4.5**	4.6
Increase to deferred benefits during deferment	**2.3**	2.4
Increase to pensions in payment:		
Open section	**2.9**	3.0
Closed section	**3.0**	3.1
Discount rate	**4.4**	4.8
Inflation assumption	**3.0**	3.1
Expected return on plan assets:		
Equities	**7.5**	7.5
Bonds	**3.6**	4.4
Cash	**n/a**	3.0

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 26.7 years (2011: 26.7 years) and 28.3 years (2011: 28.2 years) from age 60 for a 40 year old male non-pensioner.

The accounting standard requires that the discount rate used to discount the liability be determined by reference to market yields at the reporting date on high quality corporate bond investments. The currency and terms of these should be consistent with the currency and estimated term of the post-employment obligations. The discount rate has been based on the yield available on AA rated corporate bonds of a term similar to the liabilities.

The expected rate of inflation is an important assumption for the salary growth and pension increase assumptions. A rate of inflation is "implied" by the difference between the yields on fixed and index-linked government bonds.

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

For bond investments with fixed interest rates the expected yield is derived from their market value.

In respect of the equity investments, investment returns are variable and are generally considered "riskier" investments. It is generally accepted that the return on equity investments contains a premium, the "equity risk premium", to compensate investors for the additional risk of holding this type of investment. There is significant uncertainty about the size of this risk premium. The assumption chosen is within the range of long-term market expectations.

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 4.8% assumption (2011: 5.4%).

The target asset allocation consistent with the Scheme investment policy is 30:70 growth assets to matching assets.

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

The amounts recognised in the income statement are as follows:

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Current service cost	**61**	55
Finance cost on benefit obligation	**126**	131
Expected return on plan assets	**(143)**	(148)
Past service cost[1]	**-**	(26)
Total operating charge to employment costs	**44**	12

[1] In 2011, the trustees of the Scheme announced to members that benefit increases for certain members, primarily deferred benefits during deferment, would in future increase in line with CPI rather than RPI inflation. This followed the government's announcement in July 2010 on a change to statutory minimum pension increases. The reduction in benefit obligation of £26 million was recorded as a negative past service cost and included in exceptional items (refer to Note 3).

Analysis of the amounts recognised in the statement of comprehensive income:

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Actual return less expected return on plan assets	**(29)**	174
Experience gains and losses arising on the benefit obligation	**5**	(70)
Changes in assumptions underlying the present value of the benefit obligation	**(186)**	(94)
Actuarial (loss)/gain recognised in the statement of comprehensive income[1,2]	**(210)**	10

[1] The total actuarial loss recognised in the statement of comprehensive income before tax is £211 million (2011: £4 million gain). This is made up by a £210 million (2011: gain of £10 million) actuarial loss on the defined benefit scheme and a £1 million (2011: £6 million) actuarial loss on the other pension and post-retirement liabilities (refer to section (b) below).

[2] Total cumulative actuarial gains and losses recognised in equity were £284 million loss (2011: £74 million) on the defined benefit scheme.

The actual return on plan assets was £114 million (2011: £322 million).

Experience gains of £5 million (2011: loss of £70 million) arose primarily due to updating the Scheme membership data underlying the IAS 19 calculation.

The actuarial loss of £186 million (2011: £94 million) arising from changes in assumptions in the year ended 31 December 2012 resulted from a reduction in the net discount rate of 0.3%.

The amounts recognised in the statement of financial position are as follows:

	31 December 2012 £m	31 December 2011 £m
Fair value of plan assets		
Equities	**534**	515
Bonds	**1,245**	1,030
Other[1]	**1,012**	1,146
Total fair value of plan assets	**2,791**	2,691
Present value of benefit obligation	**(2,894)**	(2,652)
Gross (deficit)/surplus in scheme at 31 December	**(103)**	39
(Liability)/asset recognised in the statement of financial position	**(103)**	39

[1] Other mainly includes £198 million of investment managed by hedge funds and £729 million of interest rate and inflation hedging instruments.

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

20 Retirement benefit obligations *continued*
(a) BAA Pension Scheme *continued*
Analysis of movement in the benefit obligation:

	2012 £m	2011 £m
Benefit obligation at 1 January	**2,652**	2,403
Movement in the year:		
Current service cost	**61**	55
Past service cost	**-**	(26)
Finance cost	**126**	131
Members' contributions	**10**	10
Actuarial loss	**181**	164
Edinburgh transfer on settlement	**(46)**	-
Benefits paid (by fund and company)	**(90)**	(85)
Benefit obligation at 31 December	**2,894**	2,652

As part of the triennial review of the Scheme completed in 2011 based on the Scheme's valuation as at 30 September 2010 it was agreed that the cash contribution will be £97 million per annum commencing 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 2013.

Movements in the fair value of plan assets were as follows:

	2012 £m	2011 £m
Fair value of plan assets at 1 January	**2,691**	2,359
Expected return on plan assets	**143**	148
Actuarial (loss)/gain	**(29)**	174
Employer contributions (including benefits paid and reimbursed)	**99**	85
Members' contributions	**10**	10
Edinburgh commutation payment	**13**	-
Edinburgh transfer on settlement	**(46)**	-
Benefits paid (by fund and Company)	**(90)**	(85)
Fair value of plan assets at 31 December	**2,791**	2,691

History of experience gains and (losses):

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Difference between the expected and actual return on scheme assets:					
Amount £m	**(29)**	174	75	(71)	(343)
Percentage of scheme assets	**(1.0)**	6.5	3.2	(3.5)	(16.5)
Experience gains and losses on benefit obligations:					
Amount £m	**5**	(70)	20	67	28
Percentage of scheme liabilities	**0.2**	(2.6)	0.8	2.9	1.2
Total amount recognised in the statement of comprehensive income:					
Amount £m	**(210)**	10	62	(404)	(59)
Percentage of benefit obligation	**(7.3)**	0.4	2.6	(17.8)	(3.0)

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the discount rate:

	Annual impact in income statement £m		**Impact in equity £m**	
Sensitivity analysis based on change in discount rate	Before tax	After tax	Before tax	After tax
+0.50% discount rate	7	5	249	192
-0.50% discount rate	(9)	(7)	(284)	(219)

20 Retirement benefit obligations *continued*

(a) BAA Pension Scheme *continued*

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the inflation rate:

	Annual impact in income statement £m		Impact in equity £m	
Sensitivity analysis based on change in inflation rate	Before tax	After tax	Before tax	After tax
+0.50% inflation rate	(9)	(7)	(256)	(197)
-0.50% inflation rate	7	5	224	172

A change in the mortality assumption causing a 1 year increase in life expectancy would have a £67 million impact on the defined benefit obligation and a £2 million impact on the forward looking service cost.

(b) Other pension and post-retirement liabilities

The Group operates a defined contribution scheme for all employees who joined the Group after 15 June 2008. The Group also has defined contribution schemes in respect of employees of Heathrow Express Operating Company Limited and LHR Business Support Centre Limited. The total cost of defined contribution arrangements fully expensed against operating profit in the year is £6 million (2011: £5 million).

The Group also provides unfunded pensions in respect of a limited number of former directors and senior employees whose benefits are restricted by the scheme rules. In addition the Group provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £6 million (2011: £6 million) is included in the statement of financial position, along with provision for unfunded pension obligations of £24 million (2011: £23 million). The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

21 Share-based payments

Until 2009 the Group operated an Executive Share Option Plan ('ESOP') to provide awards of options over Ferrovial S.A. (a shareholder of the Company) shares for full time directors and other senior employees. This plan was closed in 2009 and replaced by a cash settled bonus scheme.

Options were granted with a fixed exercise price equal to the market price of the shares at the date of grant. The exercise period for each of the issues commenced three years from the option grant date and lasts for three years. The table below shows the options outstanding:

Option grant date	Number of options over Ferrovial shares outstanding at 31 December 2011[1]	Expired/forfeited during the year	Exercised during the year	31 December 2012	Grant price and exercise price (€)
July 2007	372,968	(78,977)	-	**293,991**	18.09
November 2007	59,540	(3,980)	-	**55,560**	15.29
July 2008	916,985	(155,710)	-	**761,275**	10.83
November 2008	243,838	-	(199,678)	**44,160**	6.02

[1] The outstanding options over Ferrovial shares as at 31 December 2011 have been restated to reflect vesting conditions and the 2009 CINTRA and Ferrovial merger.

22 Provisions

	Disposal of operations £m	Reorganisation £m	Other £m	Total £m
1 January 2012	4	8	10	22
Utilised	(15)	(9)	(7)	**(31)**
Charged to income statement	18	2	3	**23**
Released to income statement	(1)	-	-	**(1)**
Transfer in	-	1	-	**1**
31 December 2012	**6**	**2**	**6**	**14**
Current	6	2	1	**9**
Non-current	-	-	5	**5**
31 December 2012	**6**	**2**	**6**	**14**
Current	4	8	4	**16**
Non-current	-	-	6	**6**
31 December 2011	**4**	**8**	**10**	**22**

Disposal of operations
Provision are held for costs associated with the Group's disposals of Edinburgh and Naples airports. All amounts are expected to be utilised in 2013.

Reorganisation costs
The costs associated with the Group's reorganisation programmes primarily relate to various restructuring processes. They are for severance and pension payments only and are expected to be utilised in 2013.

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

23 Trade and other payables

	31 December 2012 £m	31 December 2011 £m
Non-current		
Deferred income	**-**	1
Other payables	**7**	-
	7	1
Current		
Deferred income	**35**	40
Trade payables	**180**	212
Other tax and social security	**9**	11
Other payables	**67**	34
Capital payables	**264**	252
	555	549

Trade payables are non-interest bearing and are generally on 30-day terms.

24 Assets held-for-sale

	31 December 2012 £m	31 December 2011 £m
Property, plant and equipment	**698**	456
Investment properties	**577**	164
Intangible assets	**257**	271
Inventories	**2**	-
Cash and cash equivalents	**26**	-
Trade and other receivables	**33**	10
Assets classified as held-for-sale	**1,593**	901
Deferred income tax liabilities	**(234)**	(160)
Current income tax liabilities	**-**	(4)
Trade and other payables	**(29)**	(17)
Liabilities classified as held-for-sale	**(263)**	(181)
Net assets of disposal group	**1,330**	720

Discontinued operations at 31 December 2011 related at Edinburgh airport. On 31 May 2012 the Group completed the disposal of its 100% shareholding in Edinburgh Airport Limited to Global Infrastructure Partners for a cash consideration of £807 million, generating a profit on disposal of £38 million (refer to Note 6).

On 20 August 2012 the Group announced plans to sell Stansted Airport Limited. The disposal process led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million. This transaction is expected to complete by the end of February 2013. The net assets of Stansted airport have therefore been classified as held-for-sale at 31 December 2012. The results and performance of discontinued operations have been disclosed in Note 6.

Movements in the normal course of business have occurred following the classification of Stansted airport to held-for-sale.

At 31 December 2012, trade receivables in Stansted airport of £16 million were fully performing. A further £11 million were past due, up to 3 months, but not impaired and expected to be fully recovered. At 31 December 2011, trade receivables at Edinburgh airport of £8 million were fully performing. A further £1 million was past due, up to 3 months, but not impaired and £1 million was considered for impairment of which £nil was provided for as it is expected to be fully recovered.

25 Share capital

	Number of shares	**Nominal value £**
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2011, 31 December 2011 and 31 December 2012	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2011, 31 December 2011 and 31 December 2012	42,998,461,934	2,665,904,640

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

26 Fair value and other reserves

	Cash flow hedge reserve £m	Available-for-sale investments £m	Currency translation reserve £m	Total £m
1 January 2011	(252)	12	6	(234)
Fair value losses	(458)	(2)	-	(460)
Transferred to income statement	145	-	-	145
Deferred tax on fair value losses	80	-	-	80
Current tax on fair value gains	(2)	-	-	(2)
Change in tax rate	(6)	-	-	(6)
Currency translation	-	-	7	7
1 January 2012	**(493)**	**10**	**13**	**(470)**
Fair value losses	**(392)**	**-**	**-**	**(392)**
Transferred to income statement	**398**	**-**	**-**	**398**
Current tax on fair value gains	**(1)**	**-**	**-**	**(1)**
Change in tax rate	**(14)**	**1**	**-**	**(13)**
31 December 2012	**(502)**	**11**	**13**	**(478)**

27 Tax relating to components of comprehensive income

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	Year ended 31 December 2012			Year ended 31 December 2011		
	Before tax £m	**Tax credit /(charge) £m**	**After tax £m**	Before tax £m	Tax credit /(charge) £m	After tax £m
Available-for-sale investments						
Loss taken to equity	**-**	**-**	**-**	(2)	-	(2)
Cash flow hedges						
(Loss)/gain taken to equity	**(392)**	**90**	**(302)**	(458)	114	(344)
Transferred to income statement	**398**	**(91)**	**307**	145	(36)	109
Actuarial (loss)/gain	**(211)**	**45**	**(166)**	4	(1)	3
Net movement in currency translation reserve	**-**	**-**	**-**	7	-	7
Change in tax rate		**(16)**	**(16)**		(9)	(9)
Tax relating to indexation of operating land		**-**	**-**		4	4
Other comprehensive income	**(205)**	**28**	**(177)**	(304)	72	(232)
Current tax		**(1)**			(2)	
Deferred tax (Note 19)		**29**			74	
		28			72	

28 Retained earnings

	2012 £m	2011 £m
At 1 January	**284**	359
Consolidated profit/(loss) for the year	**319**	(30)
Actuarial (loss)/gain on pensions	**(211)**	4
Tax gain/(loss) on actuarial movement	**45**	(1)
Change in tax rate	**(3)**	(3)
Tax relating to indexation of operating land	**-**	4
Dividends paid	**(357)**	(49)
At 31 December	**77**	284

29 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

Total future minimum rentals payable as at the year end are as follows:

	31 December 2012		31 December 2011	
	Land and Buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**16**	**50**	14	50
Within two to five years	**50**	**164**	49	208
After five years	**23**	**880**	32	996
	89	**1,094**	95	1,254

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 Ltd ('UPNS'). The lease expires in 2083. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UPNS as neither the Group nor UPNS are able to split the base fee between a 'capital' and 'maintenance' charge. The commitment has been discounted at the Group's incremental borrowing rate.

Non-cancellable operating lease commitments – Group as a lessor

Total future minimum rentals receivable as at the year end are as follows:

	31 December 2012	31 December 2011
	Land and buildings £m	Land and buildings £m
Within one year	**106**	80
Within two to five years	**278**	248
After five years	**1,651**	1,747
	2,035	2,075

The Group uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months' notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Concession contracts on the public car parks have largely been replaced by operator management fee arrangements across the Group's airports.

Non-cancellable electricity purchase commitment

Total future minimum electricity payments as at the year end are as follows:

	31 December 2012 £m	31 December 2011 £m
Within one year	**5**	34
Within two to five years	**-**	5
	5	39

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.

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

29 Commitments and contingent liabilities *continued*

Group commitments for property, plant and equipment

	31 December 2012 £m	Restated[1] 31 December 2011 £m
Contracted for, but not accrued:		
Terminal 2 - Heathrow	**625**	1,050
Western Baggage product - Heathrow	**52**	46
Terminal restoration and modernisation - Heathrow	**29**	14
Capacity optimisation - Heathrow	**20**	8
IT projects - Heathrow	**15**	5
Major Foam Tenders - Stansted	**1**	3
Rolling Stock Refresh/Rebrand - Heathrow Express	**-**	11
Taxiway Golf Rehabilitation Works (Phase 1) - Glasgow	**-**	4
	742	1,141
Other projects	**57**	11
	799	1,152

[1] The presentation of certain balances as at 31 December 2011 has been restated to be consistent with current year disclosures.

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 million as at 31 December 2012 (2011: £125 million).

Glasgow airport launched 2 blight schemes in 2005 to support the housing market and small businesses in areas potentially impacted by future runway development. Purchase obligations under this scheme will only arise once the Group announces its intention to pursue a planning application for a new runway which is considered unlikely to occur in the short-term.

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.

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

29 Commitments and contingent liabilities *continued*

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 £52 million at 31 December 2012 (2011: £260 million).

30 Note to the consolidated statement of cash flows

Reconciliation of profit/(loss) before tax to cash generated from continuing operations

	Note	**Year ended 31 December 2012 £m**	Restated[1] Year ended 31 December 2011 £m
Operating activities			
Profit/(loss) before tax		**119**	(232)
Adjustments for:			
Fair value (gain)/loss on financial instruments	*4b*	**(67)**	31
Finance costs	*4a*	**982**	1,033
Finance income	*4a*	**(264)**	(232)
Exceptional impairment charge	*3*	**5**	69
Fair value gains on investment properties		**(49)**	(50)
Depreciation	*2*	**498**	499
Exceptional charge	*3*	**-**	11
Amortisation	*2*	**20**	22
Profit on disposal of fixed assets		**(1)**	-
Share-based payments		**-**	1
Increase in trade and other receivables		**(32)**	(31)
Increase in inventories		**(1)**	(2)
Decrease in trade and other payables		**(9)**	(19)
Decrease in provisions		**(10)**	(12)
Difference between pension charge and cash contributions		**(47)**	(63)
Cash generated from continuing operations		**1,144**	1,025

[1] Information restated to include Stansted airport in discontinued operations.

31 Related party transactions

During the year the Group entered into the following transactions with related parties:

	Year ended 31 December 2012 Sale of goods and services £m	Year ended 31 December 2011 Sale of goods and services £m
Caisse de dépôt et placement du Québec	**-**	3
Swissport/Groundstar	**-**	1
	-	4

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

31 Related party transactions *continued*

	Year ended 31 December 2012 Purchase of goods and services £m	Year ended 31 December 2011 Purchase of goods and services £m
Ferrovial	**6**	6
Ferrovial Agroman	**93**	47
Amey Airport Services Limited	**2**	1
Amey Community Limited	**31**	28
HETCo	**257**	223
	389	305

Balances outstanding with related parties were as follows:

	31 December 2012		31 December 2011	
	Amounts owed by related parties £m	**Amounts owed to related parties £m**	Amounts owed by related parties £m	Amounts owed to related parties £m
Amey Community Limited	**-**	**1**	-	2
HETCo	**-**	**29**	-	32
ADI Finance 2 Limited	**93**	**185**	93	215
	93	**215**	93	249

The related parties above are related through ownership by the same parties. Related party transactions relate primarily to construction projects and are conducted on an arms-length basis, with no security provided on the balances.

32 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Group is ADI Finance 2 Limited, a company registered in England and Wales.

The ultimate parent undertaking 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 is the parent undertaking of the smallest group to consolidate these financial statements.

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

33 Principal subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Holding and other companies

Non Des Topco Limited (formerly BAA (Non Des Topco) Limited)
Heathrow Finance plc (formerly (BAA (SH) plc)†
Heathrow (SP) Limited (formerly BAA (SP) Limited)†
Heathrow Funding Limited (formerly BAA Funding Limited)†#
LHR Airports Limited (formerly BAA Airports Limited)†
Airport Holdings NDH1 Limited (formerly BAA (NDH1) Limited)†

Airport owners and operators

Heathrow Airport Limited†
Stansted Airport Limited†
Glasgow Airport Limited†
Aberdeen International Airport Limited (formerly Aberdeen Airport Limited)†
Southampton International Airport Limited†

† Held by a subsidiary undertaking
# Incorporated in Jersey

33 Principal subsidiaries *continued*

Unless otherwise indicated, all subsidiaries are wholly owned, incorporated in Great Britain and registered in England and Wales. A complete list of subsidiaries will be annexed to the next annual return delivered to the Registrar of Companies.

34 Subsequent 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 after the year end that the airport is being sold to Manchester Airports Group for £1,500 million. This transaction is expected to complete by the end of February 2013.

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Contents

Independent auditor's report to the members of Heathrow Airport Holdings Limited

We have audited the parent company financial statements of Heathrow Airport Holdings Limited for the year ended 31 December 2012 which comprise the Company balance Sheet, the Accounting policies and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the 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 misstatements 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 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 Airport Holdings Limited for the year ended 31 December 2012.

Andrew J. Kelly

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

14 February 2013

Heathrow Airport Holdings Limited (Formerly BAA Limited)

Company balance sheet as at 31 December 2012

	Notes	31 December 2012 £m	31 December 2011 £m
Fixed assets			
Investments in subsidiaries	2	**4,436**	4,436
		4,436	4,436
Current assets			
Debtors : due within one year	3	**56**	6
: due after more than one year	3	**567**	592
Cash at bank and in hand		**1**	20
Total current assets		**624**	618
Creditors: amounts falling due within one year	4	**(3)**	(3)
Net current assets		**621**	615
Total assets less current liabilities		**5,057**	5,051
Creditors: amounts falling due after more than one year	5	**(185)**	(215)
Net assets		**4,872**	4,836
Capital and reserves			
Called up share capital	6	**2,666**	2,666
Profit and loss reserve	7	**2,206**	2,170
Total shareholder's funds		**4,872**	4,836

The financial statements of Heathrow Airport Holdings Limited (Company registration number: 05757208) were approved by the Board of Directors and authorised for issue on 14 February 2013. They were signed on its behalf by:

Colin Matthews
Director

José Leo
Director

Accounting policies

The principal accounting policies applied in the preparation of the financial statements of Heathrow Airport Holdings Limited 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')). The financial statements present information about the Company as an individual entity only and not as a group.

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.

Investment in subsidiary

Investment in subsidiary 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.

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.

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

Share capital

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

Dividend distribution

A dividend distribution to the Company's shareholders 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.

Accounting policies *continued*

Cash flow statement and related party disclosures

The ultimate parent undertaking 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 and Heathrow Airport Holdings Limited for the year ended 31 December 2012 (the smallest group to consolidate these financial statements). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'.

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

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 £393 million (2011: £433 million loss).

2 Investments in subsidiaries

	£m
1 January 2012 and 31 December 2012	**4,436**

Details of principal subsidiary undertakings of the Group are provided in Note 33 of the Heathrow Airport Holdings Limited consolidated financial statements.

3 Debtors

	31 December 2012 £m	31 December 2011 £m
Due within one year		
Amount owed by group undertakings – interest free	**29**	-
Amount owed by group undertakings – interest bearing[1]	**9**	-
Interest owed by group undertakings	**13**	-
Other debtors	**5**	6
	56	6
Due after more than one year		
Amounts owed by parent undertaking[2]	**93**	93
Amounts owed by group undertakings[3]	**352**	334
Amounts owed by group undertakings – interest free	**-**	28
Deferred tax asset	**122**	137
	567	592
Total debtors	**623**	598

[1] Represents a loan advanced to LHR Airports Limited and attracts a rate of interest of 0.80%.
[2] Amounts owed by parent undertaking represent a loan to ADI Finance 2 Limited and is on an interest free basis.
[3] Amounts owed by group undertakings represent loans advanced to the Company's subsidiaries, Non Des Topco Limited of £328 million (2011: £312 million) and Heathrow Holdco Limited of £24 million (2011: £22 million). The loans attract a fixed rate of interest of 9.02%.

Deferred tax asset

Provision has been made for deferred tax in accordance with FRS 19. The amount provided in the accounts is detailed below:

	31 December 2012 £m	31 December 2011 £m
Surplus non trade deficit	**122**	137

4 Creditors: amounts falling due within one year

	31 December 2012 £m	31 December 2011 £m
Other creditors	**3**	3

5 Creditors: amounts falling due after more than one year

	31 December 2012 £m	31 December 2011 £m
Loan from parent undertaking	**185**	215

Loan from parent undertaking represents amount lent by ADI Finance 2 Limited to the Company on an interest free basis.

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

6 Share capital

	Number of shares	Nominal value £
Authorised		
Ordinary shares of 6.2p each		
At 1 January 2012 and 31 December 2012	43,000,000,100	2,666,000,006
Called up, allotted and fully paid		
Ordinary shares of 6.2p each		
At 1 January 2012 and 31 December 2012	42,998,461,934	2,665,904,640

7 Profit and loss reserve

	£m
1 January 2012	**2,170**
Profit for the financial year	**393**
Dividends paid	**(357)**
31 December 2012	**2,206**

8 Dividends paid

Dividends of £357 million were paid during the year (2011: £49 million).

9 Auditor's remuneration

Audit fees are recharged in accordance with the group Shared Services Agreement ('SSA') into the operating entities. The Company 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 was borne by LHR Airports Limited.

10 Employee information and directors' remuneration

Employee numbers

The Company had no employees (2011: none).

Directors' remuneration

None of the directors (2011: none) who served during the year ended 31 December 2012 received any emoluments from the Company.

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

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

Details of directors' remuneration for the year are provided in Note 2 of the Group financial statements.

11 Related party transactions

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.

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

12 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Company is ADI Finance 2 Limited, a company registered in England and Wales.

The ultimate parent undertaking 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 is the parent undertaking of the smallest group to consolidate these financial statements.

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

13 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 after 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 Airport Holdings Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW
Registered in England Number: 05757208