BAA Funding Limited

Annual report and financial statements for the year ended 31 December 2011

Company registration number: 99529 (Jersey)

BAA Funding Limited

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BAA Funding Limited

Officers and professional advisers

Directors
Frederick Maroudas
José Leo
Neville Scott - appointed 16th February 2012
Vincent Rapley - resigned 31st January 2012

Secretary
State Street Secretaries (Jersey) Limited

Registered office
22 Grenville Street
St Helier
Jersey
JE4 8PX
Channel Islands

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

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

BAA Funding Limited

Directors' report

The Directors present their annual report and the audited financial statements for BAA Funding Limited (the 'Company') for the year ended 31 December 2011.

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

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

During 2011, as part of refinancing existing debt facilities of the SP Group, the Company completed three new bond issues that generated proceeds of £1,507.0 million, net of issuance costs. As a result of these bond issues, further BLA advances were made to Heathrow Airport Limited ('Heathrow') for the same amount. £1,140 million of index-linked swaps were entered into to economically hedge debt instruments and RPI-linked revenue of the SP Group. Offsetting index-linked swaps were issued under BLAs to fellow subsidiary undertakings which mirror the terms and conditions of the external instruments leaving no net cash flow or market value exposure to the Company.

In 2012 the Company will continue to raise finance from capital markets to support the SP Group's significant ongoing investment programme. So far in 2012, the Company has completed a number of successful transactions. These have been a CHF400 million bond issue placed with a largely new investor base for the Company in Switzerland, a €700 million bond, a £600 million bond and a €50 million private placement. In addition, a €1,000 million bond was repaid in February 2012, bringing the Company to a net current asset position.

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

Results and dividends
The profit after taxation for the financial year amounted to £46.3 million (2010: loss of £44.6 million). No ordinary dividends were proposed or paid during the year (2010: £nil). The statutory results for the year are set out on page 7.

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

Frederick Maroudas	
José Leo	
Neville Scott	- appointed 16th February 2012
Vincent Rapley	- resigned 31st January 2012

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

Employment policies
The Company has no direct employees. Staff are employed by BAA Airports Limited, one of the Company's intermediate parent companies.

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

Financial risk management objectives and policies
Treasury

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

The Board approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day-to-day treasury operations on a centralised basis.

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

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

(a) Interest rates
The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2011, fixed rate debt after hedging with derivatives represented 87% of the SP Group's total external nominal debt.

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

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

(d) Funding and liquidity
The SP Group has established an investment grade financing platform for its airports. This platform supports bank term debt, bank revolving credit facilities including a revolving capital expenditure 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 on-going basis with formal testing reported to the AAC, the Board and the Executive Committee.

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

The SP Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under the revolving capital expenditure facility. As at 31 December 2011, cash and current asset investments were £33.2 million, undrawn headroom under bank credit facilities was £1,355.0 million and undrawn headroom under bank liquidity facility was £524.5 million.

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

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

Directors' report *continued*

Directors' indemnity
The Company's Articles of Association provide that, subject to the provisions of the Companies (Jersey) Law 1991, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss 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 the Companies (Jersey) Law 1991, the auditors will be deemed to be re-appointed and Deloitte LLP will therefore continue in office.

On behalf of the Board

Frederick Maroudas
Director

2 March 2012

Company registration number: 99529 (Jersey)

BAA Funding Limited

Directors' responsibilities statement

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

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

On behalf of the Board

Frederick Maroudas
Director

2 March 2012

BAA Funding Limited

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

We have audited the financial statements of BAA Funding Limited for the year ended 31 December 2011 which comprise the Profit and loss account, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, Significant accounting judgements and estimates and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:
- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Andrew J. Kelly FCA
for and on behalf of Deloitte LLP
Chartered Accountants
London, UK

2 March 2012

BAA Funding Limited

Profit and loss account for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Interest receivable from group undertakings		**585.8**	435.0
Interest payable on external borrowings		**(490.2)**	(406.4)
Net interest payable on derivative financial instruments	*2*	**(100.0)**	(35.8)
Fair value gain/(loss) on financial instruments	*3*	**50.7**	(37.4)
Operating profit/(loss) and profit/(loss) on ordinary activities before taxation		**46.3**	(44.6)
Tax on profit/(loss) on ordinary activities	*4*	**-**	-
Profit/(loss) after taxation for the financial year	*11*	**46.3**	(44.6)

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

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

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

BAA Funding Limited

Reconciliation of movements in shareholder's funds for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Profit/(loss) for the financial year	*11*	**46.3**	(44.6)
Net movement in shareholder's funds/(deficit)		**46.3**	(44.6)
Opening shareholder's (deficit)/funds		**(29.4)**	15.2
Closing shareholder's funds/(deficit)		**16.9**	(29.4)

BAA Funding Limited

Balance sheet as at 31 December 2011

	Note	31 December 2011 £m	31 December 2010 £m
Current assets			
Debtors: due within one year	*5*	**942.5**	38.9
: due after more than one year	*5*	**7,937.4**	6,923.6
Cash at bank and in hand		**0.1**	-
Total current assets		**8,880.0**	6,962.5
Creditors: amounts falling due within one year	6	**(1,054.9)**	(197.7)
Net current assets		**7,825.1**	6,764.8
Creditors: amounts falling due after more than one year	*7*	**(7,808.2)**	(6,794.2)
Net assets/(liabilities)		**16.9**	(29.4)
Capital and reserves			
Stated capital	*10*	**-**	-
Profit and loss reserve	*11*	**16.9**	(29.4)
Total shareholder's funds/(deficit)		**16.9**	(29.4)

These financial statements of BAA Funding Limited (Company registration number: 99529 (Jersey)) were approved by the Board of Directors and authorised for issue on 2 March 2012. They were signed on its behalf by:

José Leo
Director

Frederick Maroudas
Director

Accounting policies for the year ended 31 December 2011

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented.

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

Going concern
The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Company, as part of the SP Group, has adequate resources to continue in operational existence for the foreseeable future.

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

Although the Company is in a net current liability position at the reporting date, in February 2012 it repaid its €1,000 million bond which resulted in bringing the Company to a net current asset position. On the basis of this transaction and the results of the above-mentioned review, and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date.

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

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

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

Debtors
Debtors are recognised initially at cost less any provision for impairment.

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

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

Taxation
Whilst the Company is incorporated outside the UK, it is treated as a UK resident company for tax purposes. The Company also qualifies as a 'securitisation company' within the scope of the Taxation of Securitisation Companies Regulations 2006 under UK tax law. As a result, the Company will be subject to UK corporation tax on a small margin of £20,000 (2010: £20,000) rather than on the profit or loss shown in the profit and loss account.

Accounting policies for the year ended 31 December 2011 *continued*

Stated capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs.

Issue costs and arrangement fees
Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

Issue costs are those that are incurred directly in connection with the issue of a capital instrument, that would not have been incurred had the instruments not been issued. These are accounted for as a deduction from the fair value of consideration received and amortised using the effective interest rate method.

Facility and arrangement fees resulting from the negotiation of finance that do not qualify as issue costs are written off to the profit and loss account as incurred.

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

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company does not currently designate the derivatives held by the Company in a hedge relationship, but rather they are hedge accounted for at the SP Group level.

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.

Changes in the fair value of derivatives not in a hedge relationship are recorded in the profit and loss account.

Accounting for changes in credit risk
Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. Where material, the credit risk associated with the Company's derivatives is reflected in its derivative valuations. This credit factor is adjusted over time to reflect the reducing tenor of the instrument and is updated where the credit associated with the derivative has clearly changed based on market transactions and prices.

Classification of financial instruments issued by the Company
In accordance with Financial Reporting Standard ('FRS') 25 'Financial Instruments: Presentation', financial instruments issued by the Company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for stated capital and share premium reserve exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds, are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

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

Accounting policies for the year ended 31 December 2011 *continued*

Embedded derivatives
As required by FRS 26 'Financial Instruments: recognition and measurement' embedded derivatives are assessed on the initial recognition of the underlying host contract. Where the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract no bifurcation of the embedded derivative from the host contract is undertaken.

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

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2011. The results of the Company are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2011 (the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of BAA (SH) plc and BAA Limited for the year ended 31 December 2011. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'. Instead, a summary cash flow statement has been provided on a voluntary basis in a note to the financial statements.

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

Significant accounting judgements and estimates for the year ended 31 December 2011

In applying the Company's accounting policies management have made estimates and judgements in a number of key areas. Actual results may, however, differ from the estimates calculated and management believe that the following area presents the greatest level of uncertainty.

Fair value of derivative financial instruments
The fair value of derivative financial instruments is calculated using a discounted cash flow approach and using inputs based on observable market data. Where material, the credit risk associated with the derivatives is reflected in its calculation methodology. Judgement is used to determine whether the credit risk associated with the derivatives has changed materially over time based on market transactions and prices and, where this is the case, the credit factor is adjusted in the valuation calculation.

1 Operating costs

Auditor's remuneration
Audit fees and non-audit fees for the current and preceding financial years were borne by BAA Airports Limited.

Employee information
The Company has no employees (2010: nil).

Directors' remuneration
An amount was paid to a related party for director's services totalling £5,000 for the year ended 31 December 2011 (2010: £5,000). This payment is made annually to Mourant & Co. Capital for the services of Vincent Rapley, who was appointed by Mourant & Co. as a director of BAA Funding Limited. This has been paid by BAA Airports Limited on behalf of the Company.

José Leo was a director of a number of companies within the BAA Group, including BAA Airports Limited, during the year. His remuneration for the year ended 31 December 2011 was apportioned based on services provided to BAA Limited (2010: BAA Limited) and is disclosed within its financial statements. Frederick Maroudas was a director of a number of companies within the BAA Group. He was paid by, but is not a director of, BAA Airports Limited. The directors do not believe it is possible to accurately apportion his remuneration to individual companies based on services provided.

During the year, none of the directors (2010: none) had retirement benefits accruing to them under a defined benefits scheme and one of the directors (2010: one) had retirement benefits accruing to them under a defined contribution scheme.

No directors (2010: none) exercised any share options during the year in respect of their services to the BAA Group and no shares (2010: none) were received or became receivable under long-term incentive plans.

2 Net interest payable on derivative financial instruments

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Interest receivable on derivatives	**345.6**	257.2
Interest payable on derivatives	**(445.6)**	(293.0)
	(100.0)	(35.8)

3 Fair value gain/(loss) on financial instruments

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Index-linked swaps	**(25.9)**	(22.3)
Interest rate swaps	**-**	(10.7)
Cross-currency swaps and retranslation of foreign currency debt	**76.6**	(4.4)
	50.7	(37.4)

4 Tax on profit/(loss) on ordinary activities

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Current tax			
UK corporation tax on profit/(loss) for the year		**-**	-
		-	-

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 26.5% (2010: 28%). The actual tax charge for the current and prior year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Profit/(loss) on ordinary activities before tax	**46.3**	(44.6)
Tax on profit/(loss) on ordinary activities at 26.5% (2010: 28%)	**12.3**	(12.5)
Effect of:		
Permanent differences	**(12.3)**	(12.5)
Current tax charge/(credit) for the year	**-**	-

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

For the year to 31 December 2011, the profits subject to corporation tax were £20,000 (2010: £20,000) which gave rise to a tax liability of £5,300 (2010: £5,600). A prior year overprovision of taxation of £5,600 arose in the year (2010: £5,331).

5 Debtors

	31 December 2011 £m	31 December 2010 £m
Due within one year:		
Derivative financial instruments (Note 9)	**170.9**	-
Interest receivable from group undertakings[1]	**92.8**	38.6
Amount owed by group undertakings - interest bearing[2]	**677.8**	-
Other debtors	**1.0**	0.3
	942.5	38.9
Due after more than one year:		
Derivative financial instruments (Note 9)	**587.1**	577.4
Amount owed by group undertakings - interest bearing[2]	**7,350.3**	6,346.2
	7,937.4	6,923.6
Total debtors	**8,879.9**	6,962.5

[1] Interest receivable from group undertakings relates to interest accrued on the BLAs receivable from Heathrow Airport Limited.

[2] Amounts owed by group undertakings – interest bearing represent the balance of the BLAs receivable from Heathrow. The advances under the BLAs are secured and are issued on substantially the same terms as the bonds issued by the Company, taking into consideration the related hedging instruments. During 2011, following new bond issues by the Company, further BLA advances were made to Heathrow for a total amount of £1,507.0 million, net of transaction costs.
BAA (SP) Limited, BAA (AH) Limited, Heathrow, Stansted Airport Limited and Heathrow Express Operating Company Limited are joint guarantors in respect of principal, indexation, interest, fees and hedging arrangements in relation to the borrowings of Heathrow under the BLAs.

6 Creditors: amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Interest payable on borrowings	**183.9**	141.4
Amounts owed to group undertakings - non-interest bearing[1]	**38.3**	56.2
Borrowings (Note 8)[2]	**832.6**	-
Other creditors	**0.1**	0.1
	1,054.9	197.7

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

[2] Current borrowings at year end consisted of a €1,000 million bond which was repaid in February 2012. This had the effect of bringing the Company to a net current asset position.

7 Creditors: amounts falling due after more than one year

	31 December 2011 £m	3 December 2010 £m
Amounts owed to group undertakings - non-interest bearing	**-**	38.3
Borrowings (Note 8)	**7,130.6**	6,439.2
Derivative financial instruments (Note 9)	**677.6**	316.7
	7,808.2	6,794.2

8 Borrowings

	31 December 2011 £m	31 December 2010 £m
Current		
Secured		
Bonds		-
3.975% €1,000 million due 2012	**832.6**	-
Total current	**832.6**	-
Non-current		
Secured		
Bonds		
3.975% €1,000 million due 2012	**-**	832.3
5.850% £400 million due 2013	**379.9**	373.9
4.600% €750 million due 2014	**594.0**	600.0
12.450% £300 million due 2016	**356.3**	367.2
4.125% €500 million due 2016	**417.0**	427.6
4.600% €750 million due 2018	**559.8**	567.6
6.250% £400 million due 2018	**397.1**	396.8
9.200% £250 million due 2021	**280.6**	282.8
4.875% US$1,000m due 2021	**639.3**	-
5.225% £750 million due 2023	**624.9**	618.0
6.750% £700 million due 2026	**689.8**	689.4
7.075% £200 million due 2028	**197.5**	197.4
6.450% £900 million due 2031	**840.8**	839.5
3.334%+RPI £365 million due 2039 (2010: £235 million)	**416.3**	246.7
5.875% £750m due 2041	**737.3**	-
Total non-current	**7,130.6**	6,439.2
Total borrowings	**7,963.2**	6,439.2

8 Borrowings *continued*

Bonds

During 2011, as part of refinancing existing debt facilities of the SP Group, the Company completed three new bond issues that generated proceeds of £1,507.0 million, net of transaction costs. This comprised of a US$1 billion bond issuance generating proceeds of £615.5 million, a £750.0 million 30-yr Class A bond generating proceeds of £737.2 million and a re-opening of the existing index-linked bond with scheduled redemption date in December 2039 generating proceeds of £154.3 million.

The maturity dates listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and BAA 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 2018 bond, the redemption of which coincides with its legal maturity date.

Fair value of borrowings

	31 December 2011		31 December 2010	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds	**7,963.2**	**8,845.6**	6,439.2	7,031.4

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

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

9 Derivative financial instruments

	Notional £m	**Assets £m**	**Liabilities £m**	**Total £m**
31 December 2011				
Current				
Cross-currency swaps	**680.2**	**170.9**	**-**	**170.9**
	680.2	**170.9**	**-**	**170.9**
Non-Current				
Cross-currency swaps	**2,078.2**	**368.7**	**(4.7)**	**364.0**
Interest rate swaps[1]	**973.8**	**29.4**	**(29.4)**	**-**
Index-linked swaps[2]	**5,253.9**	**189.0**	**(643.5)**	**(454.5)**
	8,305.9	**587.1**	**(677.6)**	**(90.5)**
	8,986.1	**758.0**	**(677.6)**	**80.4**

	Notional £m	Assets £m	Liabilities £m	Total £m
31 December 2010[3]				
Non-Current				
Cross-currency swaps	2,137.1	550.0	(18.9)	531.1
Index-linked swaps[2]	4,113.9	27.4	(297.8)	(270.4)
	6,251.0	577.4	(316.7)	260.7

[1] £973.6million (2010: £nil) notional value of interest rate swaps relate to hedges with Heathrow.
[2] £3,048 million (2010: £1,908.0 million) notional value of index-linked swaps relate to hedges with Heathrow.
[3] The presentation of certain balances for the year ended 31 December 2010 has been restated to be consistent with the current year disclosure.

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

Cross-currency swaps

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

Index-linked swaps

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

Interest rate swaps

New forward-starting interest rate swaps have been entered during the period to hedge against variability in interest cash flows on future debt issuances.

10 Stated capital

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

11 Profit and loss reserve

	£m
1 January 2011	(29.4)
Profit for the year	46.3
31 December 2011	**16.9**

12 Ultimate parent undertaking

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

The ultimate parent entity in the UK 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. (49.99%) (an indirect subsidiary of Ferrovial SA. Spain), Britannia Airport Partners L.P. (26.48%) (a Caisse de dépôt et placement du Québec-controlled vehicle), Baker Street Investment Pte Ltd (17.65%) (an investment vehicle of the Government of Singapore Investment Corporation) and Alinda Airports UK L.P. and Alinda Airports L.P. (5.88%) (investment vehicles managed by Alinda Capital Partners).

The Company's results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2011, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of BAA (SH) plc, BAA Limited and FGP Topco Limited for the year ended 31 December 2011.

Copies of the financial statements of FGP Topco Limited, BAA Limited, BAA (SH) plc and BAA (SP) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW, United Kingdom.

13 Summary cash flow statement

	Note	Year ended 31 December 2011 £m	Restated[1] Year ended 31 December 2010 £m
Operating profit/(loss)		**46.3**	(44.6)
Adjustments for:			
Fair value (profit)/loss on financial instruments		**(50.7)**	37.4
Derivative prepayment amortisation		**60.3**	88.7
Movement in accrued interest on derivative financial instruments		**11.3**	(7.9)
Amortisation of cost/premium on bonds	6,7	**43.0**	39.9
Amortisation of cost/premium on BLA advances	5	**(42.1)**	(68.1)
Increase in interest receivable	5	**(54.2)**	(0.9)
Increase in other debtors	5	**(0.1)**	(0.1)
Increase in interest payable on borrowings	6	**42.5**	9.5
Movement in amounts owed to group undertakings - non-interest bearing	6,7	**(56.2)**	(17.3)
Increase in other creditors	6	**-**	0.1
Net increase in amounts owed by group undertakings	5	**(1,508.4)**	(774.3)
Net cash outflow from operating activities before financing		**(1,508.3)**	(737.6)
Financing			
Net proceeds from issuance of bonds		**1,507.0**	829.4
Settlement of accretion on index-linked swaps		**(15.0)**	-
Prepayment of derivative interest		**-**	(36.7)
Restructuring and cancellation of derivatives		**16.4**	(55.1)
Net increase in cash		**0.1**	-

[1] The presentation of certain balances for the year ended 31 December 2010 has been restated to be consistent with the current year disclosure.