Heathrow Express Operating Company Limited

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

Company registration number: 03145133

Heathrow Express Operating Company Limited

Contents

Heathrow Express Operating Company Limited

Officers and professional advisers

Directors
Keith Greenfield
John Holland-Kaye
Benjamin Harding
Robert Smallwood

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Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
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Banker
The Royal Bank of Scotland plc
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Heathrow Express Operating Company Limited

Directors' report

The Directors present their Annual report and the Audited financial statements for Heathrow Express Operating Company Limited (the 'Company') for the year ended 31 December 2011.

Principal activities
The Company operates the rail service between Heathrow Airport and Paddington, London. The Company's parent, Heathrow Airport Limited ('Heathrow'), is entitled to all receipts and income relating to the Company but the day to day operation of Heathrow Express and Heathrow Connect is undertaken by the Company on behalf of Heathrow. For providing these services, Heathrow pays the Company a management fee and reimburses all of its operating costs.

Results and dividends
The profit after taxation for the financial year amounted to £4.4 million (2010: £4.3 million). No dividends were proposed or paid during the year (2010: £nil). The statutory results for the year are set out on page 9.

Review of business and future developments
Key events occurring during the year and developments since the beginning of 2011 are detailed below.

During the year the Heathrow Express service carried a total of 5.68 million passengers, 5.9% higher than the previous year's total of 5.36 million. Heathrow Connect passenger numbers remained at a similar level 0.54 million passengers, marginally down from 0.56 million in 2010. The combined passenger number for both services increased by 5.1% from 5.92 million in 2010 to 6.22 million in 2011 which was slightly below Heathrow Airport passenger growth of 5.5%.

Heathrow Express operational performance remained high with the Heathrow Express Public Performance Measure '(PPM)' remaining at 95.3% while punctuality increased to 91.9% (2010: 90.2%). The PPM for Heathrow Connect remained at 94.8%. In addition the Heathrow Express Quality Service Measure '(QSM)' score (Friendliness, Appearance, Availability) increased to 91.3% (2010: 91.2%) maintaining a high level of commitment to the customer experience.

In 2012 the Company plans to maintain an excellent level of service, support Heathrow Airport during the London Olympics and continue to drive passenger revenue. This will be underpinned by the refresh of the Heathrow Express brand and the modernisation of the fleet; 7 trains are scheduled to be completed before the Olympics in July 2012 and the remaining 7 trains by March 2013.

Directors
The Directors who served during the year, except as noted, are as follows:

Nicholas Cullen	Resigned 30 June 2011
Benjamin Harding	Appointed 1 January 2011
Mark Murphy	Resigned 1 December 2011
Richard Robinson	Resigned 7 October 2011
Normand Boivin	Appointed 29 August 2011 and resigned 23 November 2011
Terence Morgan	Appointed 10 June 2011 and resigned 23 November 2011
Robert Smallwood	
Keith Greenfield	Appointed 21 November 2011
John Holland-Kaye	Appointed 21 November 2011

Employment policies
The Company's employment policies are designed to balance the needs of the business, the customer and the employee and to enable it to attract, recruit and retain high performing individuals from the diverse communities that it provides services to.

The Company remains committed to encouraging diversity and fair and consistent practices in all stages of the employee life cycle, from recruitment onwards. The Company's Diversity policy takes account of relevant legislation and full consideration and support is given to employees who become disabled or require flexible working arrangements in order to remain employed.

Opportunities for development and progression are available to all and learning and development activities receive a high priority to continuously improve the performance of individuals and teams and to retain talented individuals.

The Company places great emphasis and allocates substantial resource to ensure that the views of employees are sought and employees are engaged in delivering against business objectives.

Collective consultation takes place with two rail unions, ASLEF (Association of Locomotive Engineers and Firemen) and the RMT (Rail, Maritime and Transport workers union), for a large proportion of the Company's employees. In addition regular formal and informal consultation processes exist for consulting with all employees directly, including working parties, training days for operational employees, employee surveys and line manager briefings.

Employment policies *continued*
A number of internal communications tools exist, such as daily newsletters, a company intranet/extranet site and employee briefing processes, the aims of which are to ensure employees have both the knowledge to effectively carry out their day to day activities but also to further understand the importance of their actions in achieving financial and service performance targets.

Reward and recognition practices also seek to align individual performance to Company objectives and financial targets for employees, managers and senior managers. Bonuses paid to employees and managers are linked to performance against financial targets.

Supplier payment policy
The Company 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 Company had 34 days purchases outstanding at 31 December 2011 (2010: 51 days) based on the average daily amount invoiced by suppliers during the year.

Risk management
Risk management is a key element of the BAA Limited group's (the 'BAA Group') corporate operations of which the Company forms a part. Risk is centrally managed for the BAA Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to the Accounting policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely, following the BAA Group's guidelines. The Executive Committee, Board and Audit and Assurance Committee ('AAC') referred to below relate to the Executive Committee, Board and AAC of BAA Limited.

Risk management in the BAA Group facilitates the identification, evaluation and effective management of the threats to the achievement of the BAA 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 all significant business decisions are risk-informed. Particular emphasis is given to safety, security, environment, reputation, operations and finance in pursuit of the BAA Group's strategic framework.

A key element of the risk management process is the method of profiling risk. This determines the threats to the achievement of business objectives and day to day operations in terms of likelihood and consequence at inherent and residual level. The process takes into account mitigating and controlling actions. Details are maintained in risk registers which are used as the basis for regular review of risk management at Executive Committee level. The risk registers are also used to make informed decisions relating to the procurement of insurance cover.

The risk management process is also aimed at defining and implementing 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 process and the individual registers are subject to periodic review by the BAA Group's 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 management reporting processes and a specialist compliance audit function, reporting directly to the Sustainability and Operational Risk Committee (2010: Health, Safety, Security and Environment Committee).

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 Company operates a safety management system built around risk assessment, inspection, asset stewardship, governance and assurance.

Risk assessment is undertaken for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the BAA Group's business. The Company also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe. Governance, led by the Senior Management Team, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

The Health, Safety, Security & Environment Committee review safety issues and events against the Company's safety plans. This is held monthly by the Senior Management Team and at the Board meeting each quarter. Additionally there is a Safety Review Panel that reviews the safety risks arising from any proposed changes that may impact the business such as new engineering initiatives.

Security risks
Security risks are regarded as critical risks to manage throughout the BAA Group. The Company mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company works closely with government agencies, building a framework to establish joint accountabilities for security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment.

The Company has a security plan for stations and trains which adhere to regulations laid down by the Government Department of Transport.

Environmental risks
Environmental risk is managed throughout the BAA Group as it has the potential to impact negatively upon the BAA Group's reputation and jeopardise its licence to operate and to grow. The Company 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 Company works closely with a range of stakeholders to ensure that the BAA Group reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks
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 Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The Heathrow Express pay agreement reached in late 2011 established the pay structure for 2011 and 2012 – the next pay negotiations are planned for 2013.

Treasury
The Company's financial risk management objectives are aligned with BAA Group, 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 BAA (SP) Limited group (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 Group's business operations and funding. To achieve this, the BAA Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate and currency risks.

Risk management *continued*

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 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 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 auditors Deloitte LLP will be proposed within the period set out in section 485.

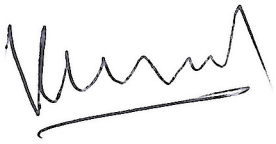
Statement of disclosure of information to the Auditor

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's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the Board



Keith Greenfield
Director

23 March 2012

Company registration number: 03145133

Heathrow Express Operating Company Limited

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the 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 period.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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 the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Keith Greenfield
Director

23 March 2012

Independent auditor's report to the members of Heathrow Operating Company Limited

We have audited the financial statements of Heathrow Express Operating Company 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, and the related notes 1 to 14. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 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 prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

27 March 2012

Heathrow Express Operating Company Limited

Profit and loss account for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Turnover		**63,827**	61,881
Operating costs - ordinary	*1*	**(58,024)**	(56,257)
Operating gain - exceptional	*2*	**109**	111
Total operating costs		**(57,915)**	(56,146)
Operating profit		**5,912**	5,735
Net interest receivable and similar charges	*3*	**196**	195
Profit on ordinary activities before taxation		**6,108**	5,930
Tax charge on profit on ordinary activities	*4*	**(1,673)**	(1,667)
Profit on ordinary activities after taxation	*11*	**4,435**	4,263

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 those stated in the Profit and loss account and accordingly no Statement of total recognised gains and losses is presented.

Heathrow Express Operating Company Limited

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

	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Profit for the financial year	*11*	**4,435**	4,263
Capital contribution	*11*	**-**	115
Tax on capital contribution	*11*	**-**	(31)
Net movement in shareholder's funds		**4,435**	4,347
Opening shareholder's funds		**12,688**	8,341
Closing shareholder's funds		**17,123**	12,688

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

Heathrow Express Operating Company Limited

Balance sheet as at 31 December 2011

	Note	31 December 2011 £'000	31 December 2010 £'000
Fixed assets			
Tangible fixed assets	*5*	**77**	51
Total fixed assets		**77**	51
Current assets			
Debtors: due within one year	*6*	**21,394**	22,241
: due after more than one year	*6*	**426**	137
Cash at bank and in hand	*7*	**2,373**	788
Total current assets		**24,193**	23,166
Current liabilities			
Creditors: amounts falling due within one year	*8*	**(7,081)**	(10,456)
Net current assets		**17,112**	12,710
Total assets less current liabilities		**17,189**	12,761
Provisions for liabilities and charges	*9*	**(66)**	(73)
Net assets		**17,123**	12,688
Capital and reserves			
Called up share capital	*10*	**-**	-
Profit and loss reserve	*11*	**17,123**	12,688
Total shareholder's funds		**17,123**	12,688

The financial statements of Heathrow Express Operating Company Limited (Company registration number: 03145133) were approved by the Board of Directors and authorised for issue on 23 March 2012. They were signed on its behalf by:

Keith Greenfield
Director

John Holland-Kaye
Director

Accounting policies for the year ended 31 December 2011

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

Basis of preparation
These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (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 BAA (SP) Limited Group (the 'SP Group'), has adequate resources to continue in operational existence for the foreseeable future. The Company forms part of the SP Group which is the smallest group to consolidate these financial statements and the level at which financial risks are managed for the Company.

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

As a result of the review and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date.

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

All revenue was received from Heathrow Airport Limited and represents the costs incurred providing the rail service on behalf of Heathrow Airport Limited plus a 10% management fee, net of VAT.

All fare and commercial revenue is collected on behalf of Heathrow Airport Limited by the Company and transferred directly to Heathrow Airport Limited.

Exceptional items
The Company separately presents certain items on the face of the Profit and loss account as exceptional. Exceptional items are material items of income or expense that, because of their size or incidence merit separate presentation to allow an understanding of the Company's financial performance.

Provisions to recognise the Company's liability to fund the BAA Airports Limited defined benefit pension scheme deficit or share in the surplus under the Shared Services Agreement are also treated as exceptional. Refer to the Shared Services Agreement Accounting policy.

Additional details of exceptional items are provided as and when required as set out in Note 2.

Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest 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.

Tangible fixed assets
Rolling stock and all major assets used by the service are owned by Heathrow Airport Limited and depreciated by it.

Assets owned by the Company are stated at cost less accumulated depreciation.

Depreciation is provided on these operational assets, mainly office and computer equipment, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as follows:

	Fixed asset lives
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Computer software	3 - 7 years

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

Impairment of assets
The Company 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 Company estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a significant change in the circumstances underlying the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

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.

Company as a lessee
Operating lease payments are recognised as an expense in the Profit and loss account on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Company as a lessor
Leases where the Company 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 value of the leased asset and recognised over the lease term on the same basis as the rental income.

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

Cash
Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists.

Creditors
Creditors are recognised at cost.

Provisions
Provisions are recognised when the Company 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.

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.

Pension costs – defined contribution pension scheme
The main pension fund for the Company is a defined contribution group personal pension plan. Pension costs are based on a fixed percentage of salary, up to a maximum of 9.6% for employees, which is agreed at the commencement of their contract and continues to be paid whilst employed by the Company. The costs are charged to the profit and loss account on the basis of costs incurred during the year. This charge is included within ordinary staff pension costs.

Accounting policies for the year ended 31 December 2011

Pension costs – defined contribution pension scheme *continued*
As detailed under the Shared Services Agreement, certain employees are members of the BAA Airports Limited defined benefit pension scheme. Full details of this scheme are disclosed in the financial statements of BAA Airports Limited for the year ended 31 December 2011.

Shared Services Agreement ('SSA')
On 18 August 2008, the Company entered into a SSA with BAA Airports Limited by which the latter became the shared services provider of corporate services.

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

Pension costs – defined benefit pension scheme
Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the Company on the basis of pensionable salaries. This charge is included within Operating costs – ordinary.

The Company has had an obligation since August 2008 to fund or benefit from its share of the BAA Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits pension related liabilities under the SSA. These provisions or assets are based on the relevant share of the actuarial deficit or surplus and allocated on the basis of pensionable salaries. Movements in these provisions or assets are recorded as exceptional items due to their size and nature.

As more than one employer participates in the BAA Airports Limited defined benefit pension scheme and each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the Company accounts for the scheme in accordance with the SSA. Additionally the BAA Group discloses information about the total scheme surplus or deficit.

Current and deferred taxation
The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and loss account, except to the extent that it relates to items recognised directly in reserves. In this case, the tax is also recognised in reserves.

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

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

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

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

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

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 are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2011 (parent entity and 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).

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.

Notes to the financial statements for the year ended 31 December 2011

1 Operating costs – ordinary

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Wages and salaries	**17,564**	16,187
Social security	**1,841**	1,569
Pensions[1]	**491**	417
Other staff related costs	**1,578**	1,380
Employment costs	**21,474**	19,553
Maintenance expenditure	**16,474**	15,499
Utility costs	**1,792**	2,314
Rents and rates	**1,442**	2,371
General expenses[2]	**14,393**	13,704
Intra-group charges/other[3]	**2,397**	2,779
Depreciation	**52**	37
	58,024	56,257

[1] Pension includes £438,000 (2010: £342,000) of pension costs related to the Company's defined contribution pension scheme and £53,000 (2010: £75,000) which are recharges from BAA Airports Limited in relation to the defined benefit pension scheme. Refer to the Accounting policies.
[2] General expenses include the costs for track access to Network Rail, police, insurance, and marketing expenditure.
[3] Intra-group charges were for electricity, corporate management fee, IT, car parking and telephones.

Rentals under operating leases

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Operating costs include:		
Plant and machinery	**185**	109
Other operating leases	**8,351**	7,890

Auditors' remuneration

Audit fees and non audit fees for the current and preceding financial years were borne by BAA Airports Limited and recharged in accordance with the SSA as described within the Accounting policies.

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Fees payable to the Company's auditors for the audit for the Company's Annual accounts		
Audit of the Company pursuant to legislation	**15**	23
Total fees	**15**	23

Employee information

The average number of employees during the year of the Company was 435 (2010: 411).

Notes to the financial statements for the year ended 31 December 2011 *continued*

1 Operating costs – ordinary *continued*

Directors' remuneration

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Directors' remuneration		
Aggregate emoluments[1]	**168**	158
Value of Company pension contributions to pension schemes	**14**	15
	182	173

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Number of Directors who:		
are members of a defined benefit scheme	**-**	2
are members of a defined contribution scheme	**2**	1

[1] For the year ended 31 December 2011 aggregate emoluments includes accrued salaries, allowances, director fees, bonuses and amounts payable under long term incentive plans ('LTIP').

Mark Murphy was paid by, but is not a director of, Heathrow Airport Limited. Nicholas Cullen and John Holland-Kaye were Directors of a number of companies within the BAA Group, including Heathrow Airport Limited, during the year. Their remuneration for the year ended 31 December 2011 was apportioned based on services provided to Heathrow Airport Limited and as such is disclosed within its financial statements.

The Director's participate in various Long Term Incentive Performance Cash Plans operated by BAA Group. 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 year period. For the year ended 2011, the directors' remuneration includes £3,000 payable in 2012 (2010: nil) in respect of the 2009 Plan after certain targets were met over the three year period from 2009 to 2011. As the financial performance in respect of the 2010 and 2011 Plans is uncertain at this stage, no value in relation to these awards is included above.

None of the 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 Operating gain – exceptional

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Pension credit	**109**	111

During 2011 there was a net exceptional pension credit of £109,000 (2010: £111,000 credit). This includes the Company's share of the movement in the BAA Airports Limited defined benefit pension scheme, the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits.

3 Net interest receivable and similar charges

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Interest receivable from group undertaking	**194**	193
Interest receivable on bank deposits	**2**	2
Net interest receivable and similar income	**196**	195

Notes to the financial statements for the year ended 31 December 2011 *continued*

4 Tax on profit on ordinary activities

	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Current tax			
Group relief payable		**1,534**	1,639
Adjustments in respect of prior periods		**428**	(181)
Total current tax charge		**1,962**	1,458
Deferred tax			
Origination and reversal of timing differences:		**81**	196
Prior period		**(380)**	-
Change in tax rate		**10**	13
Total deferred tax (credit)/charge	*6*	**(289)**	209
Tax charge on profit on ordinary activities		**1,673**	1,667

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 years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit on ordinary activities before tax	**6,108**	5,930
Tax on profit on ordinary activities at 26.5% (2010: 28%)	**1,619**	1,661
Effect of:		
Permanent differences	**(4)**	3
Capital allowances for the year in excess of depreciation	**(10)**	(15)
Other short-term timing differences	**(71)**	(10)
Adjustments to tax charge in respect of prior periods	**428**	(181)
Current tax charge for the year	**1,962**	1,458

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK will change from 26% to 25% with effect from 1 April 2012. Other than this change there are no items which would materially affect the future tax charge.

5 Tangible fixed assets

	Plant, equipment & other assets £'000
Cost	
1 January 2011	202
Additions at cost	78
31 December 2011	**280**
Depreciation	
1 January 2011	(151)
Charge for the year	(52)
31 December 2011	**(203)**
Net book value 31 December 2011	**77**
Net book value 31 December 2010	51

6 Debtors

	31 December 2011 £'000	31 December 2010 £'000
Due within one year		
Trade debtors	**6,668**	5,241
Amounts owed by group undertakings[1]	**11,420**	14,953
Amounts owed by group undertakings - pensions[2]	**100**	-
Other debtors	**3,206**	2,047
	21,394	22,241
Due after more than one year		
Deferred tax asset	**426**	137
Total debtors	**21,820**	22,378

[1] Amounts owed by group undertakings are repayable on demand and accrue interest at Bank of England base rate +1.5%. £5,430,000 (2010: £11,838,000) is owed by Heathrow Airport Limited and primarily represents reimbursement of cost plus management fee. The remaining amount of £5,990,000 (2010: creditor of £3,115,000) is owed by BAA Airports Limited due to VAT repayments and other miscellaneous charges.

[2] Amounts owed by group undertakings – pensions represents the Company's share of the surplus in the BAA Airports Limited defined benefit pension scheme allocated to the Company on the basis of pensionable salaries of those employees being in the defined benefit pension scheme. See Note 9 for further details.

Deferred tax

	£'000
1 January 2011	137
Credited to profit and loss account	289
31 December 2011	**426**

Analysis of the deferred tax asset balances is as follows:

	31 December 2011 £'000	31 December 2010 £'000
Excess of capital allowances over depreciation	**451**	88
Other timing differences	**(25)**	49
	426	137

Provision has been made for deferred taxation in accordance with FRS 19, 'Deferred Tax'.

The Finance Act 2011 enacted a reduction in the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. As a result the Company's deferred tax balances, which were previously provided at 27%, have been re-measured at the rate of 25%. This has resulted in a reduction in the net deferred tax liability of £10,000 with £10,000 credited to the Profit and loss account.

7 Cash at bank and in hand

	31 December 2011 £'000	31 December 2010 £'000
Cash at bank and in hand	**2,373**	788

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

8 Creditors: amounts falling due within one year

	31 December 2011 £'000	31 December 2010 £'000
Bank overdraft	**3**	1,276
Trade creditors	**171**	166
Accruals and deferred income	**5,358**	7,321
Corporation tax payable	**257**	257
Group relief payable	**722**	835
Other tax and social security	**495**	472
Other creditors	**75**	129
	7,081	10,456

9 Provisions for liabilities and charges

	£'000
1 January 2011	73
Credit to Profit and loss account	66
Released to Profit and loss account	(73)
31 December 2011	**66**

The £66,000 closing provision (2010: £73,000) is held for historical accumulated past service pension costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits. The movement in the year is due to the BAA Airports Limited defined benefit pension scheme moving from a deficit to a surplus position. As such the closing balance is included within Debtors - Amounts owed by group undertakings – pensions.

For more information on pension costs charged refer to the Accounting policies.

10 Called up share capital

	£
Authorised	
At 1 January 2011 and 31 December 2011:	
100 ordinary shares of £1 each	**100**
Called up, allotted and fully paid	
At 1 January 2011 and 31 December 2011:	
2 ordinary shares of £1 each	**2**

11 Reserves

	Profit and loss reserve £'000
1 January 2010	8,341
Profit for the financial year	4,263
Capital contribution	115
Tax charge on capital contribution	(31)
31 December 2010	**12,688**

	Profit and loss reserve £'000
1 January 2011	12,688
Profit for the financial year	4,435
31 December 2011	**17,123**

12 Commitments

Commitments under operating leases

At 31 December 2011, the Company was committed to making the following payments during the next year in respect of operating leases.

	31 December 2011		31 December 2010	
	Land & buildings £'000	**Other leases £'000**	Land & buildings £'000	Other leases £'000
Leases which expire:				
within one year	**-**	**5**	-	69
within two to five years	**-**	**35**	-	40
after five years	**457**	**7,894**	417	7,474
	457	**7,934**	417	7,583

Commitments for capital expenditure

Contracted capital expenditure commitments amount to £10,900,000 (2010: £nil) and relate to the upgrade and overhaul of the current train fleet expected to be completed by April 2013.

13 Contingent liabilities

The Company, together with Heathrow Airport Limited, Stansted Airport Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations to the Borrower Secured Creditors under their financing agreements. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

The Company, together with Heathrow Airport Limited and Stansted Airport Limited have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of the liabilities of those companies under the Borrower Account Bank Agreement.

Under the SSA hedging costs properly incurred by BAA Airports Limited in relation to the Executive Share Option Plan ('ESOP') may be recharged to the Company. At 31 December 2011, the ESOP swaps held in BAA Airports Limited had a fair value loss of £55.3 million (2010: £75.6 million) of which no liability has been apportioned to the Company.

14 Ultimate parent undertaking

The immediate parent undertaking is Heathrow Airport 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 in the UK to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (49.99%) (an indirect subsidiary of Ferrovial S.A., 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 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.