BAA (SP) Limited
Annual report and financial statements for the year ended 31 December 2011

Company registration number: 06458621

BAA (SP) Limited

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BAA (SP) Limited

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Business review

BAA (SP) Limited (the 'Company') is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service between Heathrow and Paddington, London. BAA (SP) Limited is an indirect subsidiary of BAA Limited ('BAA Group').

The consolidated financial statements of BAA (SP) Limited and its subsidiaries (together 'BAA (SP)' or the 'Group') have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

This business review is presented in three sections:
Management review – overview of the year ended 31 December 2011, along with the key factors likely to impact the Group in 2012.
Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2011 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered.
Internal controls and risk management – outline of the BAA Group's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the BAA Group Executive Committee.

Management review

Review of 2011

Key features of the year

2011 was a successful year for the Group with an overall recovery in traffic, including record traffic for Heathrow, and improvements in service standards. These factors, combined with higher tariffs at Heathrow, robust retail performance and continued cost control, enabled the Group to deliver a strong financial performance despite a challenging macro-economic background. This robust performance enabled the Group to continue investing in enhancing its airport infrastructure, particularly at Heathrow.

Heathrow, the Group's largest airport, enjoyed a strong year including achieving an all time annual traffic record of 69.4 million passengers compared with the previous record of 67.9 million set in 2007. Heathrow also used a record 99.2% of its maximum permitted annual arrivals and departures in 2011. This means the airport is effectively operating at full capacity, preventing airlines from developing new routes from the UK to emerging market destinations such as Manila, Shenzhen and Jakarta.

There have recently been signs of the UK government acknowledging the problem. Ministers are shortly to consult on the future of UK aviation including specifically the issue of hub capacity constraints. At this time a third runway at Heathrow is not one of the options being considered. However, an increasing number of aviation stakeholders and commentators believe that all options for increasing aviation hub capacity should be considered and that both short and long term solutions must be developed.

Heathrow also maintained its recent momentum in improving important operational metrics. This included delivering its best punctuality performance in over a decade and achieving its highest ever overall passenger satisfaction. In addition, the airport's ability to respond to adverse weather and other disruptions has been significantly enhanced as a result of progress in implementing the recommendations of the Begg Report produced following the disruption caused by winter weather in December 2010.

The Group continued significant investment at Heathrow with good progress made in constructing the new Terminal 2 which will be Heathrow's second new terminal in recent years. Nearly £950 million was invested in 2011, including over £900 million at Heathrow. The superstructure of the new Terminal 2 building was substantially complete by the end of 2011 and the next two years will be spent fitting out the new facility and undertaking operational readiness activities prior to operations commencing during 2014.

The Group has continued to challenge the Competition Commission's ('CC') requirement that it must sell Stansted airport. BAA issued proceedings at the Competition Appeal Tribunal ('CAT') for the judicial review of the CC's decision regarding material changes in circumstances since the CC's report of March 2009. The hearing to consider the case was held in December 2011 and in February 2012 the CAT rejected BAA's request. BAA is currently considering its position in light of the CAT's decision.

During the year, Heathrow's current regulatory period was extended by one year to 31 March 2014 (which was already the end date for Stansted's current regulatory period) to provide more time for new legislation related to the economic regulation of UK airports to be implemented and then utilised in establishing the terms of the next regulatory settlement for the Group's airports. The draft Civil Aviation Bill was published in late 2011 and introduced into Parliament in early 2012.

Management review *continued*

Key features of the year continued

Further progress has been made in strengthening the Group's capital structure through a number of financings that have raised approximately £3 billion in the last 12 months. The highlight was the inaugural US$1 billion bond issue completed in June 2011. This has enabled BAA to decide in principle to commence paying dividends to its ultimate shareholders in 2012 for the first time since it was acquired by the Ferrovial-led consortium in 2006.

Passenger traffic trends

Passenger traffic for the year ended 31 December 2011 at the Group's airports is analysed below:

	Year ended 31 December 2011	Year ended 31 December 2010	Change[1] (%)
Passengers by airport (millions)			
Heathrow	**69.4**	65.7	5.5
Stansted	**18.0**	18.6	(2.8)
Passengers by market served (millions)			
UK	**6.2**	6.6	(6.3)
Europe[2]	**44.5**	42.8	4.0
Long haul	**36.8**	35.0	5.2
Total passengers[1]	**87.4**	84.3	3.7

[1] These figures have been calculated using un-rounded passenger numbers.
[2] Includes North African charter traffic.

In the year ended 31 December 2011, the Group's passenger traffic increased 3.7% to 87.4 million (2010: 84.3 million), with Heathrow's traffic up 5.5% to an all time annual record of 69.4 million passengers. Reported year on year performance partly reflects no recurrence of the exceptional events in 2010 being closure of airspace due to volcanic ash, airline industrial action affecting Heathrow and severe winter weather. Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events are estimated to have resulted in the loss of up to a total of 2.8 million passengers. Adjusting for these factors, the Group's traffic is estimated to have increased by at least 0.4% in 2011.

In achieving an all time annual traffic record, Heathrow reported eight monthly records with July being its busiest month in history. Adjusting for 2010's disruptions outlined above, which resulted in Heathrow losing up to 2.4 million passengers, its traffic is estimated to have increased by at least 1.9% in 2011.

Heathrow's performance reflects its position as a major European hub and its broad international links in both European and long haul markets. Growth was particularly strong with countries such as the United States, Germany, Switzerland, France and Brazil. Of Heathrow's major markets, European traffic showed the most significant year on year growth, increasing 7.6% to 28.5 million passengers (2010: 26.5 million). North Atlantic traffic also performed robustly, increasing 7.5% to 15.8 million passengers (2010: 14.7 million) driven by the success of American Airlines' and British Airways' joint transatlantic services launched in March 2011 and new routes introduced by Delta Air Lines. However, Heathrow's domestic traffic lagged the airport's overall performance, declining 2.9% to 4.7 million passengers (2010: 4.8 million) largely reflecting cessation of bmi's Glasgow service.

The proportion of origin and destination traffic at Heathrow remained constant in 2011 versus 2010 at 65%. Heathrow also operated 99.2% of its maximum allowed 480,000 annual arrivals and departures meaning it effectively operated at full capacity. At the same time it also experienced the highest ever load factor on aircraft operating to and from the airport of 75.2% (2010: 75.1%).

Stansted's traffic declined 2.8% to 18.0 million passengers (2010: 18.6 million). This reflects no recurrence of the volcanic ash and severe winter weather disruptions in 2010 that resulted in the loss of approximately 0.4 million passengers. Adjusting for this, Stansted's traffic declined 5.0%, reflecting airlines' redeployment of capacity from the UK to other European markets. Much of the decline was in the domestic market, which declined 15.8% principally due to cessation of services to Belfast and Newcastle. Excluding the domestic market, traffic was down only 1.5% to 16.6 million passengers (2010: 16.8 million). Further, Stansted experienced record load factors through most of 2011 (80.8% compared to 78.8% in 2010) whilst traffic declined, suggesting gradually more positive demand dynamics.

Management review *continued*

Transforming the Group's airports

The Group has continued to implement its strategy to improve passengers' experience and airlines' operations through sustained substantial investment in modern airport facilities and improved service standards. This will ensure customers enjoy superior facilities relative to competitors, encouraging greater utilisation of the Group's airports and supporting their long-term growth ambitions.

Heathrow is the third largest airport in the world and the largest globally for international traffic, with 7 of the top 10 long haul intercontinental routes passing through the airport. Reflecting this pivotal market position, the Group's key strategic objective is to enhance Heathrow's leading position in the global aviation industry and particularly its long-standing role as the UK's gateway to the world.

Substantial progress in delivering this objective is being made, with the UK's largest private sector investment programme rapidly transforming passengers' and airlines' experience of using Heathrow. Terminal 5 was the airport's first new terminal for over 20 years when it opened in 2008 and is now rated by passengers as the best airport terminal in Europe. It is the global hub of British Airways who have achieved significant efficiency gains from this world class facility.

Airlines strongly support continued significant investment in Heathrow to underpin its long term future. The current focus is on the construction of the new Terminal 2, which is due to open in 2014. Once open, around 70% of passengers using Heathrow will enjoy some of the newest airport facilities in the world.

Alongside the transformation of Heathrow's infrastructure, there has also been consistent improvement in service standards. Further clear progress was made during 2011, a particularly notable achievement given both record traffic volumes and the challenges of building the new Terminal 2 in the live operating environment of one of the world's largest airports. Most importantly, during 2011 Heathrow achieved its highest ever overall passenger satisfaction in the Airport Service Quality survey, consolidating its position in the top two of the five biggest European airports on this measure.

Investment in modern airport facilities

The Group's capital investment programme continues to be focused on the transformation of Heathrow. Significant milestones have been achieved in the last year with the main projects including construction work on Terminal 2 and baggage systems as well as completion of Terminal 5C. Over £900 million was invested at Heathrow in 2011 with over 50% of the spend relating to the new Terminal 2. The level of investment is expected to increase substantially over 2012 and 2013 as progress is made towards opening Terminal 2. This will support thousands of high value jobs over the next few years.

In relation to the new Terminal 2, at the beginning of 2011 the main terminal building consisted of a small part of its steel framework but rapid development means the terminal superstructure is now complete and the building weather-tight. This has enabled significant progress to be made on the terminal's interior including completion of the floor structures and installation of major mechanical and electrical equipment. Fit out of terminal systems is also underway including outbound baggage systems, escalators and travelators.

Extensive work on the terminal's aircraft stands has included installation of fuel, drainage, water, electrical and communications services. Construction of the concrete pavement also commenced.

Significant progress was also made during 2011 on building the second phase of Terminal 2's satellite building (Terminal 2B) with construction of the extensive basement structures to house the tracked transit train and baggage systems. This will connect the satellite to the main building, once the main terminal's second phase is constructed. Construction of the satellite's steel framework commenced in 2011 with the northern section weather-tight by the end of the year and the southern section due to be completed in the coming months. The whole second phase of the satellite building is expected to be weather-tight in late 2012. During 2012 construction of the satellite's aircraft stands and taxiways is expected to commence.

Contracts were signed in March 2011 for the construction of Terminal 2's multi-storey car park and work on site commenced in May 2011. The first columns for the car park's arrivals and departures ramps have been constructed. Design work for the car park structure is complete.

Terminal 5C became operational in June 2011 providing Terminal 5 with an additional 12 pier served stands linked to the main Terminal 5 building by a tracked transit train system. One of the key benefits of Terminal 5C is to reduce the incidence of passengers having to be transported by bus between Terminal 5 and their aircraft and the proportion of aircraft operating from remote stands at Terminal 5 has reduced from nearly 20% prior to Terminal 5C's opening to just over 10% at the end of 2011.

Transforming the Group's airports continued

Investment in modern airport facilities continued

In relation to Heathrow's baggage systems, 2011 saw the final stages of the construction and commissioning of the underground automated baggage transfer system between Terminals 3 and 5. Operational trials are currently taking place with full live operation of the facility expected shortly.

Elsewhere in Heathrow's baggage investment programme, the most significant development during 2011 was the commencement of construction of a new integrated baggage system for Terminal 3.

Following the severe winter weather in December 2010, Heathrow completed nearly £20 million in capital investment in implementing the recommendations of the subsequent winter resilience enquiry. Amongst other things, this has enabled the airport to increase substantially the number of vehicles available for snow clearance. Further investment is expected relating to Heathrow's resilience in 2012, for example in relation to a new command and control centre.

At Stansted the modest investment was focused in areas such as security search process improvement, upgrade of the airport operating system and new air bridges.

Service standards

At Heathrow, the year saw strong performance across many key service areas and these improvements have been reflected in higher than ever passenger satisfaction scores in independent surveys. The absence in 2011 of the major weather related disruption seen in 2010 contributed to this performance, but there was also significant success in driving underlying improvements.

In relation to individual service standards, Heathrow achieved its highest annual departure punctuality, as measured by the proportion of aircraft departing within 15 minutes of schedule, in over a decade of 79% (2010: 71%). Other than less weather disruption, the performance reflects initiatives such as closer monitoring of performance with airlines and NATS, greater scrutiny of underperforming airlines, reducing flows in peak periods of the day, more resilient operating procedures in poor weather, improved co-ordination with other local airspace users and enhanced infrastructure flexibility following completion of Terminal 5C and additional taxiways capable of handling the largest aircraft such as the A380.

Heathrow's baggage misconnect rate improved to 15 bags per 1,000 passengers (2010: 18) during 2011 with its best ever monthly baggage misconnect performance in April (11 bags per 1,000 passengers) and consistently good performance across the year.

On security queuing, passengers passed through central security within the period prescribed under Heathrow's service quality rebate scheme 96.9% (2010: 97.5%) of the time compared with the 95.0% service standard. The service standard is measured monthly at an individual terminal level and there were two breaches in the year, both at Terminal 5 (in July and December), partly reflecting record traffic flows. Additional security lines are being introduced to mitigate the risk of this happening in future.

It is clear from independent surveys that passengers are noticing these improvements with Heathrow achieving in 2011 its highest ever overall passenger satisfaction (and 3 of its 4 highest ever scores) in the global Airport Service Quality survey (produced by Airports Council International). The average of its scores in this quarterly survey during 2011 was 3.88 (2010: 3.84). These results consolidate Heathrow's position in the top two of the five biggest European airports on this measure.

In July 2011, the South East Airports Taskforce, sponsored by the Department for Transport, recommended that consideration be given to Heathrow having greater operational freedom to prevent or mitigate disruption. For example, this might involve simultaneous use of both runways for arrivals and departures in such circumstances, within the existing overall cap on aircraft movements. An initial trial of runway use in this manner concludes in February 2012 with another trial expected during summer 2012. If implemented permanently, such measures should improve areas such as punctuality and baggage misconnects as well as bringing environmental benefits such as reduced stacking.

Heathrow's ability to respond to adverse weather conditions and other disruptions has been significantly enhanced during 2011 as a result of progress on implementing the recommendations of the Begg Report produced following the disruption caused by winter weather in December 2010.

At Stansted, departure punctuality also improved significantly to 88% (2010: 78%). The strength of this performance is reflected by the fact that Stansted was recognised by FlightStats as the third best performing airport globally for departure punctuality during November 2011. In addition, passengers passed through central security within the period prescribed under its service quality rebate scheme 97.9% (2010: 98.2%) of the time compared with the 95.0% service standard. Stansted also won several notable international awards in 2011, including the Skytrax 'world's best low-cost airport' award.

Management review *continued*

Regulatory and governmental developments

Competition Commission inquiry into the supply of UK airport services by BAA

There have been a number of developments in relation to the Competition Commission's ('CC') inquiry into the supply of UK airport services by BAA since the beginning of 2011. In February 2011, BAA was refused permission to appeal to the Supreme Court against the CC's March 2009 requirement that certain airports, including Stansted and either Edinburgh or Glasgow, be sold. In July 2011, the CC determined that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision. In September 2011, BAA issued proceedings at the Competition Appeal Tribunal ('CAT') for the judicial review of the CC's decision regarding changes in circumstances. The hearing to consider the case was held in December 2011 and in February 2012 the CAT rejected BAA's request. BAA is currently considering its position in light of the CAT's decision.

Meanwhile, in October 2011, the CC decided to reverse the order of disposals so that the disposal of either Edinburgh or Glasgow would precede that of Stansted. As a result, BAA decided to sell Edinburgh airport and has commenced its disposal process.

UK aviation policy developments

On election in 2010, the new UK government ruled out the development of any new runways in South East England, an area with chronic airport capacity issues given Heathrow and Gatwick, the UK's two largest airports, are the world's busiest two runway and single runway airports respectively with Heathrow operating at 99.2% of its maximum permitted capacity in 2011. This has severely restricted route development to key emerging market destinations such as Manila, Shenzen and Jakarta.

Since the election, there has been increasing debate about the need for the UK economy to be rebalanced towards manufacturing and to focus on developing trade with faster growing emerging market economies that are increasingly the engine of global economic growth. In parallel, there has been greater recognition of the need to stimulate economic growth and job creation. Modernisation of the UK's transport infrastructure is seen as a key enabler and contributor to this process. In the context of the aviation sector, it is also increasingly accepted that the development of hub airport capacity, as uniquely provided by Heathrow, is the optimal way to ensure the UK enjoys the connectivity with emerging market economies that will support the UK's long-term economic prosperity.

There have recently been signs of the UK government acknowledging the airport capacity issue and seeking to improve connectivity with emerging markets. Ministers are shortly to begin a consultation on the future of aviation in the UK that is intended to address specifically the issue of hub airport capacity constraints. At this time a third runway at Heathrow is not one of the options being considered. However, an increasing number of stakeholders and commentators believe that all options for increasing aviation hub capacity should be considered and that both short and long term solutions must be developed.

Modernisation of economic regulation of UK airports

In March 2011, the Government confirmed its intention to implement reforms to the framework for the economic regulation of UK airports, as set out in its July 2010 statement, which largely built on proposals published by the Department for Transport in December 2009. Reflecting a desire that the terms of Heathrow's next regulatory settlement are established using the new regulatory framework, following consultation with Heathrow and its airline community, the Civil Aviation Authority announced the extension of Heathrow's current regulatory period by one year from 31 March 2013 to 31 March 2014. During the one year extension, Heathrow's aeronautical tariffs will continue to be determined using the existing RPI + 7.5% formula. In addition, Heathrow agreed with its airline community a cap on its capital programme for the extension year of £735 million (in 2007/08 prices).

In November 2011, the Government moved to the next stage in implementing the proposed new regulatory framework with publication of the draft Civil Aviation Bill for pre-legislative scrutiny including by the Transport Select Committee. The bill was introduced into Parliament on 19 January 2012.

Developments since beginning of 2012

In January 2012, passenger traffic across the Group's airports increased 0.7% to 6.2 million (2011: 6.2 million) with Heathrow delivering an all time record for January of 5.2 million passengers.

Outlook

This year is expected to see strong growth in turnover, Adjusted EBITDA and operating cash flow driven principally by increases in aeronautical tariffs. Heathrow also intends to make significant progress on the construction of the new Terminal 2 with capital investment forecast to increase materially on 2011. The Group is also focused on ensuring it delivers on the important role in the overall London 2012 Games experience that its airports will play as the arrival and departure point for most athletes and visitors.

Passenger traffic in early 2012 has been consistent with expectations with Heathrow achieving record traffic in January. Therefore at this stage the outlook for the Group's financial performance in 2012 remains consistent with guidance in the Investor Report distributed in December 2011.

BAA (SP) Limited

Financial review

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

Basis of preparation of statutory results
BAA (SP) Limited is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service. The Group's statutory accounts are prepared under UK GAAP including the adoption of merger accounting.

Basis of presentation of financial results
The profit and loss account below provides more detailed disclosure than the statutory format on page 23 in order to enable a better understanding of the results of the Group's operations.

Summary performance

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Group turnover	**2,280.0**	2,074.3	9.9
Adjusted operating costs[1]	**(1,147.9)**	(1,107.4)	3.7
Adjusted EBITDA[2]	**1,132.1**	966.9	17.1
Operating (costs)/gain – exceptional - pensions	**(40.3)**	89.9	n/a
Operating gain/(costs) – exceptional - other	**0.2**	(12.7)	n/a
EBITDA	**1,092.0**	1,044.1	4.6
Depreciation – ordinary	**(508.9)**	(476.7)	6.8
Depreciation and impairment – exceptional	**(11.0)**	(18.7)	(41.2)
Operating profit	**572.1**	548.7	4.3
Gain on disposal of Gatwick airport – discontinued operations	**7.9**	16.2	(51.2)
Impairment of fixed assets – exceptional	**-**	(149.3)	n/a
Net interest payable and similar charges	**(789.9)**	(696.4)	13.4
Fair value loss on financial instruments	**(45.9)**	(35.8)	28.2
Total net interest payable and similar charges	**(835.8)**	(732.2)	14.1
Loss on ordinary activities before taxation	**(255.8)**	(316.6)	(19.2)
Tax credit/(charge) on loss on ordinary activities	**64.3**	(5.2)	n/a
Loss on ordinary activities after taxation	**(191.5)**	(321.8)	(40.5)

[1] Adjusted operating costs are stated before depreciation, amortisation and exceptional items.
[2] Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

Turnover
In the year ended 31 December 2011, turnover increased 9.9% to £2,280.0 million (2010: £2,074.3 million). This reflects increases of 14.5%, 8.9% and 0.4% in aeronautical, retail and other income respectively.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Aeronautical income	**1,276.4**	1,115.0	14.5
Retail income	**518.6**	476.3	8.9
Other income	**485.0**	483.0	0.4
Total turnover	**2,280.0**	2,074.3	9.9

Aeronautical income
Aeronautical income increased 14.5% to £1,276.4 million (2010: £1,115.0 million). Average aeronautical income per passenger increased 10.4% to £14.60 (2010: £13.22).

Financial review *continued*

Turnover *continued*
Aeronautical income continued
Aeronautical income summary (by airport)

	Aeronautical income			Per passenger[1]		
	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %	**Year ended 31 December 2011 £**	Year ended 31 December 2010 £	Change %
Heathrow	**1,149.6**	991.3	16.0	**16.57**	15.08	9.9
Stansted	**126.8**	123.7	2.5	**7.03**	6.66	5.5
Total	**1,276.4**	1,115.0	14.5	**14.60**	13.22	10.4

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

At Heathrow, the growth primarily reflects passenger traffic trends as well as the headline 6.2% and 12.2% increases in its tariffs from 1 April 2010 and 1 April 2011 respectively. This has been partially offset by lower than expected yields since April 2011, particularly due to a different passenger mix (higher proportion of European traffic) and a higher proportion of quieter aircraft than assumed when tariffs for the current regulatory year were determined. These factors led to aeronautical income being approximately £25 million lower than expected during the year ended 31 December 2011. This shortfall (or yield dilution) will be recovered through the ‘K factor’ true-up mechanism in the year commencing 1 April 2013. At Stansted, with its year on year decline in traffic, growth in aeronautical income reflects principally the fact that whilst the change in the headline tariff for the year to 31 March 2011 was -1.3%, from 1 April 2011 it was 6.33%. The headline maximum allowable yields at Heathrow and Stansted will increase by 12.7% and 6.83% respectively from 1 April 2012.

Retail income
The Group’s retail business continued to perform well with net retail income (‘NRI’) per passenger increasing 5.5% to £5.58 (2010: £5.29) in the year ended 31 December 2011, led by Heathrow where NRI per passenger was up 5.3%.

This performance was based on gross retail income increasing 8.9% to £518.6 million (2010: £476.3 million) and NRI increasing 9.4% to £487.6 million (2010: £445.7 million).

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

	Year ended 31 December 2011	Year ended 31 December 2010	Change %
Retail income (£m)	**518.6**	476.3	8.9
Less: retail expenditure (£m)	**(31.0)**	(30.6)	1.3
Net retail income (£m)	**487.6**	445.7	9.4
Passengers (million)[1]	**87.4**	84.3	3.7
Net retail income per passenger [1, 2]	**£5.58**	£5.29	5.5

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

Analysis of net retail income

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Car parking	**83.4**	73.9	12.9
Duty and tax-free	**125.9**	113.5	10.9
Airside specialist shops	**91.8**	83.4	10.1
Bureaux de change	**47.7**	44.4	7.4
Catering	**45.5**	40.5	12.3
Landside shops and bookshops	**25.8**	25.0	3.2
Advertising	**30.3**	30.5	(0.7)
Car rental	**15.4**	15.1	2.0
Other	**21.8**	19.4	12.4
Total	**487.6**	445.7	9.4

At Heathrow, gross retail income increased 10.7% to £435.4 million (2010: £393.2 million) and NRI per passenger increased 5.3% to £5.95 (2010: £5.64). The performance was led by duty and tax-free, airside specialist shops, catering and car parking. The strong in-terminal performance has been delivered whilst undertaking a major refurbishment of Terminal 3’s retail facilities where disruption was at its height during the summer months. Year on year trading performance also benefited from a further shift in passenger mix from domestic to international passengers.

Financial review *continued*

Turnover *continued*
Retail income continued
Analysis of net retail income continued
Strength in duty and tax-free partly reflects the new walk through area in the World Duty Free store in Terminal 3 and extension of the store in Terminal 5. In airside specialist shops, trading in the luxury segment has remained robust in recent months despite the more cautious macroeconomic environment. Catering had a buoyant year reflecting active rebalancing of the portfolio towards premium outlets, enhanced contractual terms and focus on the speed of service. Strength in car parking reflected increased usage, tariff increases and strength in premium services (short stay, business and valet parking services).

Stansted's gross retail income increased 0.1% to £83.2 million (2010: £83.1 million), a good performance given passenger trends which meant that NRI per passenger increased 3.4% to £4.16 (2010: £4.02). Growth in Stansted's retail income reflects performance particularly in car parking due to achieving higher yields per user with bureaux de change and advertising also supporting the recent positive retail performance. These improvements were partially offset by reductions elsewhere, particularly in duty and tax free shopping.

Other income
Income from activities other than aeronautical and retail increased 0.4% to £485.0 million (2010: £483.0 million). This partly reflects rail income increasing 7.9% to £111.1 million (2010: £103.0 million) due to Heathrow Express passenger numbers increasing 5.1% to 6.22 million (2010: 5.92 million) and higher revenues from increased passenger volumes on the Piccadilly line extension to Terminal 5. Property rental income also increased 1.8% to £110.3 million (2010: £108.3 million) due to rent reviews implemented from April 2010. The remaining revenue streams included in other income declined 3.0% principally due to the conclusion in 2010 of most of the agreements with Gatwick to provide transitional services following its disposal in late 2009.

Adjusted operating costs
Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the year ended 31 December 2011, adjusted operating costs increased 3.7% to £1,147.9 million (2010: £1,107.4 million).

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Employment costs	**339.1**	315.7	7.4
Maintenance expenditure	**137.0**	134.8	1.6
Utility costs	**110.8**	115.6	(4.2)
Rents and rates	**129.4**	117.0	10.6
General expenses	**232.7**	233.3	(0.3)
Retail expenditure	**31.0**	30.6	1.3
Intra-group charges/other	**167.9**	160.4	4.7
Total	**1,147.9**	1,107.4	3.7

The main drivers of the increased adjusted operating costs were higher employment costs and rents and rates. Employment costs were up 7.4% reflecting principally pay rises and increased headcount. The higher employee numbers are particularly due to increased airfield security personnel at Heathrow and more mobile sales assistants that have helped support growth at Heathrow Express. The increased employment costs also reflected increased overtime and use of temporary staff to support record traffic levels at Heathrow through the summer.

Higher rents and rates costs reflected a five yearly rates revaluation effective from April 2010, an annual rates increase from April 2011 and no recurrence of the rates rebate recorded in 2010.

Partially offsetting the increased employment and rents and rates costs was a reduction in utility costs towards the end of the year due to the mild autumn and reduced unit prices. In addition, general expenses and maintenance costs reflect no recurrence of the previously reported estimated £7.8 million cost of the severe winter weather in December 2010.

During 2011 the BAA Group outsourced to Capgemini a range of IT services that were previously provided by the BAA Group's own IT department. These services, which include application management, support of end user devices, IT Infrastructure management, and telecoms support are provided under an initial five year contract. During 2011, the one-off incremental costs of transition were offset by cost savings under the new outsourcing arrangements.

Adjusted operating costs for 2011 were lower than forecast in the Investor Report issued in December 2011 reflecting particularly reduced intra-group charges and the lower utility costs and general expenses referred to above.

Adjusted EBITDA
In the year ended 31 December 2011, Adjusted EBITDA increased 17.1% to £1,132.1 million (2010: £966.9 million), resulting in an Adjusted EBITDA margin of 49.7% (2010: 46.6%).

The significant increase in Adjusted EBITDA from 2010 reflects improved underlying traffic, increased aeronautical and retail income per passenger, continued cost control and no recurrence of 2010's volcanic ash, strike and severe winter weather disruptions. Taking into account the financial impact of disruptions in 2010, previously estimated at £58.0 million, Adjusted EBITDA increased 10.5% to £1,132.1 million (2010: £1,024.9 million).

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 18.7% to £1,045.1 million (2010: £880.7 million). The significant increase in Heathrow's Adjusted EBITDA reflects the factors referred to above in relation to the growth in the Group's Adjusted EBITDA. Stansted's Adjusted EBITDA increased 0.9% to £87.0 million (2010: £86.2 million) due principally to higher tariffs and increased car parking and other income partially offset by increased employment costs.

Operating profit
The Group recorded an operating profit for the year ended 31 December 2011 of £572.1 million (2010: £548.7 million). Relative to Adjusted EBITDA, operating profit includes £508.9 million in depreciation (2010: £476.7 million). In addition, it reflects a net £51.1 million exceptional charge included in operating profit (2010: £58.5 million credit). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Adjusted EBITDA	**1,132.1**	966.9	17.1
Depreciation	**(508.9)**	(476.7)	6.8
Exceptional items – pensions	**(40.3)**	89.9	n/a
Exceptional items – accelerated depreciation and impairment	**(11.0)**	(18.7)	(41.2)
Exceptional items – other	**0.2**	(12.7)	n/a
Operating profit	**572.1**	548.7	4.3

Depreciation
Depreciation for the year ended 31 December 2011, excluding exceptional charges, was 6.8% higher at £508.9 million (2010: £476.7 million) driven by depreciation commencing on Heathrow Terminal 5C, the second satellite to Terminal 5, during the course of the year. It also reflects higher depreciation on Heathrow Terminal 1 asset additions given the impact on their economic life of the expected second phase of Terminal 2. There was also the full year effect of depreciation of investment in 2010 on IT assets and Heathrow baggage search equipment, the refurbished Heathrow Terminal 4 check-in facilities and bringing into use, initially connected to Terminal 1, the first phase of the satellite building for the new Terminal 2.

Exceptional items : pensions
Items within operating profit include a £40.3 million non-cash pension related charge (2010: £89.9 million credit). This includes the Group's share of the movement in BAA Airports Limited defined benefit pension scheme, Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits as well as a re-allocation of pension balances between entities.

Exceptional items : accelerated depreciation and impairment
The accelerated depreciation and impairment charge of £11.0 million (2010: £18.7 million – accelerated depreciation) in 2011 was in relation to an impairment charge on the Airtrack rail project which the Group has decided not to pursue. In 2010, the accelerated depreciation charge was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development.

Exceptional items : other
The £0.2 million credit in 2011 was due to the release of provisions that were no longer required. The reorganisation costs in 2010 related primarily to various restructuring processes designed to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

Gain on disposal of Gatwick airport – discontinued operations
During 2011, £7.9 million excess provisions for Gatwick disposal costs were released to the profit and loss account. The £16.2 million gain on disposal in 2010 reflected the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected, and the receipt of a further £1.4 million on the finalisation of Gatwick's balance sheet at completion of the disposal.

Financial review *continued*

Exceptional items : impairment of fixed assets
The exceptional items below operating profit in 2010 related to impairment charges arising from the Group's decision not to pursue planning applications for new runways at Heathrow and Stansted given that the UK's new coalition government does not support the development of new runways in the South East of England. There was a total impairment charge of £149.3 million made of which £104.4 million related to the write-off of planning application costs and £44.9 million to the write down in the value of domestic properties and land purchased by both airports falling within the planned expanded airport boundaries prior to their transfer to investment properties. This accounting treatment has no impact on these costs being included in the aiports' regulatory asset bases and has no cash impact. In addition, it will not affect future cash flow generation, consistent with CAA guidance (other than £37 million of Stansted planning application costs previously disallowed by the CAA)

Net interest payable and similar charges
Net interest payable and similar charges is discussed together with net interest paid under 'Net interest payable and net interest paid'.

Taxation
The tax credit recognised for the year ended 31 December 2011 was £64.3 million (2010: £5.2 million charge). Based on a loss before tax for the period of £255.8 million (2010: £316.6 million), this results in an effective tax credit rate of 25.1% (2010: negative effective tax rate of 1.6%).

Excluding the impact of the change in tax rate, the tax credit recognised for the year on ordinary activities of £40.3 million (2010: £17.4 million charge) results in an effective tax credit rate of 15.8% (2010: negative effective tax rate of 5.5%). The tax credit is less than implied by the statutory rate of 26.5% (2010: 28%) primarily due to permanent differences arising from non-qualifying depreciation. Refer to Note 5 of the Group financial statements.

The Finance Act 2011 enacted a reduction in the main rate of UK corporation tax from 27% to 26% with effect from 1 April 2011 and from 26% to 25% with effect from 1 April 2012. As a result, the Group's deferred tax balances, which were previously provided at 27%, have been re-measured at the rate of 25% in the year ended 31 December 2011. This has resulted in a reduction in the net deferred tax liability of £20.1 million, with £24.0 million credited to the profit and loss account and £3.9 million charged to reserves.

Dividend
As part of the reversal of a £134.8 million loan made by BAA (SH) plc, the Group paid a £24.8 million dividend, with the remaining £110.0 million distributed through partial repayment of the loan.

Summary cash flow

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Net cash inflow from operating activities	**1,132.2**	918.5
Net interest paid	**(388.8)**	(393.8)
Taxation – group relief paid	**(27.2)**	(17.1)
Cash flow after interest and tax	**716.2**	507.6
Net capital expenditure	**(864.7)**	(841.1)
Pension and other payments related to disposal of Gatwick airport	**(6.1)**	(125.3)
Dividends paid	**(24.8)**	-
Net cash outflow before management of liquid resources and financing	**(179.4)**	(458.8)
Management of liquid resources	**20.0**	193.5
Prepayment of derivative interest	**-**	(36.7)
Cancellation of derivatives	**(114.4)**	(73.9)
Issuance of ordinary share capital	**-**	217.4
Movement in borrowings and other financing flows[1]	**279.9**	160.6
Increase in cash	**6.1**	2.1

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

Cash flow from operating activities
Net cash inflow from operations in the year ended 31 December 2011 increased 23.3% to £1,132.2 million (2010: £918.5 million) which compares with Adjusted EBITDA of £1,132.1 million (2010: £966.9 million). The improved conversion of Adjusted EBITDA to operating cash flow in 2011 primarily reflects a one-off £47.2 million improvement in working capital following the implementation of a new BAA group cash management process that has resulted in cash in transit to the Group being received faster. Excluding this effect, as in 2010, operating cash flow was around £50 million less than Adjusted EBITDA, principally reflecting cash pension contributions being higher than the profit and loss account charge.

Financial review *continued*

Capital expenditure

In the year ended 31 December 2011, the cash flow impact of the Group's capital investment programme was £864.7 million (2010: £841.1 million) with £843.8 million at Heathrow (2010: £818.7 million) and £20.9 million at Stansted (2010: £22.4 million).

The most significant areas of capital expenditure at Heathrow were on the new main Terminal 2 building, the second phase of the satellite building for the new Terminal 2, information technology, the transfer baggage tunnel between Terminals 3 and 5 and Terminal 5C.

Pension scheme

At 31 December 2011, the BAA Airports Limited defined benefit pension scheme had a surplus of £38.7 million as measured under IAS 19, of which £32.4 million is attributable to the Group under the Group's shared services agreement. This compares with a scheme deficit of £43.6 million at 31 December 2010. The change from a scheme deficit to a surplus is due principally to employer cash contributions being greater than the current service charge since the increase in the value of the scheme assets was offset by increased liabilities. It also reflects a £26 million credit due to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements.

The scheme's trustees have recently concluded the triennial valuation of the defined benefit pension scheme and agreed with the BAA Group a schedule of cash contributions to be made to the scheme by the BAA Group from January 2012. The valuation was carried out as at 30 September 2010 and indicated a scheme deficit of £275 million calculated using the trustees' actuarial assumptions.

As part of the triennial valuation process, the BAA Group will pay £97 million per annum into the scheme from 2012 to 2014. This compares with a total contribution of £80 million per annum paid from 2009 to 2011. The amount being paid in each of the next three years includes £24 million which is aimed to eliminate the deficit over a period of 9 years. All but approximately £15 million of the new annual amount will be met by the Group's airports.

Net debt and liquidity

The analysis below focuses on the Group's external debt and excludes the debenture between BAA (SP) Limited ('BAA (SP)') and its parent company, BAA (SH) plc ('BAA (SH)'). It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

During 2011, the Group's nominal net debt increased 5.3% to £10,442.6 million at 31 December 2011 from £9,921.2 million at 31 December 2010. The increase in net debt primarily reflects two factors capital investment at Heathrow exceeding the Group's post-interest cash flow and accretion on the Group's index-linked swaps and bonds.

The Group's nominal net debt at 31 December 2011 comprised £7,807.6 million outstanding under bond issues, £1,395.0 million outstanding under the Group's capital expenditure facility, £918.6 million outstanding under other loan facilities, £349.2 million in index-linked derivative accretion and cash at bank and term deposits of £27.8 million (compared with cash and current asset investments of £33.2 million shown on the balance sheet). Nominal net debt comprised £9,417.6 million in senior net debt and £1,025.0 million in junior debt.

The accounting value of the Group's net debt at 31 December 2011 was £10,254.4 million (2010: £9,910.5 million).

The average cost of the Group's external gross debt at 31 December 2011 was 4.17% (2010: 4.44%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion the Group's average cost of debt at 31 December 2011 was 6.45% (2010: 5.63%). The increase in the average cost of debt (including index-linked accretion) is the result of a number of factors including the replacement of short-term bank debt with higher cost bond debt and the impact of high current inflation on the accretion payable on index-linked swaps and bonds.

At 31 December 2011, the Group had approximately £1.4 billion in undrawn bank facilities and cash resources. Since the beginning of 2012, the Group has raised approximately £1.5 billion (see "Recent financing activity" below for more details) and also repaid a Euro-denominated bond that reached maturity in February 2012 amounting to £680 million in Sterling terms. Taking into account these transactions, the Group currently has sufficient liquidity to meet all its obligations in full including capital investment, debt service costs and debt maturities until the final maturity of its revolving capital expenditure facility in August 2013. On completing the refinancing of that facility, the Group's liquidity horizon is expected to extend significantly.

Recent financing activity

During 2011, the Group strengthened its capital structure by completing approximately £1.5 billion in long-term bond issues. The highlight of this activity was the Group's debut US$1 billion bond completed successfully in June 2011 despite testing market conditions. This was an important strategic development, diversifying the Group's financing options by providing access to a substantial new investor base. The transaction provides a platform from which to develop over time a significant US dollar issuance programme that supplements issuance programmes in other currencies.

Recent financing activity *continued*
In addition, two sterling bond issues were completed in May 2011 raising close to £900 million. Together, these three new bond issues enabled the Group to repay in full its bank refinancing facility in September 2011.

Since the beginning of 2012, the Group has continued to be active in the capital markets, completing a number of transactions. These have been a CHF400 million Class A bond issue placed with a largely new investor base for the Group in Switzerland, a €700 million Class A bond, a £600 million Class B bond and a €50 million Class A private placement. In addition, a €1,000 million bond was repaid in February 2012.

In the remainder of 2012, the financing priorities for the Group will be to increase further the undrawn balance under its £2.7 billion revolving capital expenditure facility principally through continued capital markets issuance, potentially including further currency diversification beyond Sterling, Euro, US dollars and Swiss francs. The Group also intends to complete the refinancing of its capital expenditure facility (extending its term significantly beyond the current maturity date of August 2013).

Regulatory Asset Base ('RAB')
Set out below are RAB figures for Heathrow and Stansted at 31 December 2010 and 31 December 2011. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	Stansted £m	Total £m
31 December 2010	11,448.7	1,327.3	12,776.0
31 December 2011	12,490.2	1,359.5	13,849.7

The increase in the total RAB during 2011 reflected the addition of approximately £935 million in capital expenditure partially offset by regulatory depreciation of around £555 million. Variation in RAB profiling adjustments added a further £75 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £620 million during the year.

Net interest payable and net interest paid
In the year ended 31 December 2011, the Group's net interest payable was £789.9 million (2010: £696.4 million) excluding fair value losses on financial instruments. Underlying interest payable was £764.6 million (2010: £654.6 million), after adjusting for £27.1 million (2010: £22.7 million) in capitalised interest and £52.4 million (2010: £64.5 million) in non-cash amortisation of financing fees and bond fair value adjustments. The increased underlying interest payable in 2011 is primarily due to a number of factors including the overall increase in net debt and the average cost of debt, both referred to in "Net debt and liquidity" above.

Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £45.9 million (2010: £35.8 million).

Net interest paid in the year ended 31 December 2011 was £388.8 million (2010: £393.8 million). This consisted of £347.2 million (2010: £326.2 million) paid in relation to external debt and £41.6 million (2010: £67.6 million) under the debenture between BAA (SP) and BAA (SH). The increase in net interest paid on external debt between 2010 and 2011 primarily reflects the refinancing of loan facilities with bonds on which coupons were first paid in 2011 together with the impact of increased net debt. This was partially offset by the benefit to net interest paid of additional index-linked swaps entered into since November 2010. The lower interest paid on the debenture between BAA (SP) and BAA (SH) is due to the decrease in the amount of the debenture following the partial repayment of £1 billion in September 2010, financed by new and existing facilities in BAA (SP).

Net interest paid is lower than net interest payable primarily due to an amortisation charge of £62.1 million (2010: £140.6 million) in net interest payable relating to prepayments of derivative interest implemented principally in earlier periods and a £247.2 million non-cash charge (2010: £118.6 million) relating to accretion on index-linked instruments. In addition, there is the non-cash amortisation of financing fees and bond fair value adjustments partially offset by capitalised interest.

Financial ratios
The Group continues to operate comfortably within required financial ratios.

At 31 December 2011, the Group's senior and junior gearing ratios (nominal net debt to RAB) were 68.0% and 75.4% respectively (2010: 68.8% and 77.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. The reduction in gearing ratios since 31 December 2010 reflects primarily the retention of operating cash flow in the Group and the benefit to the RAB of inflation.

Financial ratios *continued*

In the year ended 31 December 2011, the Group's senior and junior interest cover ratios (the ratio of cashflow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.76x and 2.34x respectively (2010: 2.08x and 1.85x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. The improvement in the interest cover ratios from 2010 reflects primarily the increased cashflow from operations generated by the Group in 2011. Cash exceptional items excluded in determining 2011 interest cover ratios included the one-off working capital benefit referred to in "Cash flow from operating activities" above.

Accounting and reporting policies and procedures

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP')). The Group's accounting policies and areas of significant accounting judgements and estimates are detailed within the Group financial statements. The Company accounts are stated under UK GAAP.

Internal controls and risk management

Internal control and risk management are key elements of the BAA Limited Group's (the 'BAA Group') corporate operations of which the Group forms part. Risk is centrally managed for the Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to the Accounting policies). In addition, the Group has a fully dedicated senior team at each of its airports which implements and manages risk closely, following the 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.

Internal controls

The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Company and for reviewing the effectiveness of the system. This is implemented by applying the BAA Group internal control procedures, supported by a Code of Ethics Policy, a Professional Conduct Policy, appropriate segregation of duties controls, organisational design and documented procedures. These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

The key features of the BAA Group's internal control and risk management systems in relation to the financial reporting process include:

- a group-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- AAC review of press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items
    - compliance with accounting, legal, regulatory and lending requirements
    - critical accounting policies and the going concern assumption
    - significant areas of judgement;
- independent review of controls by the Internal Audit function, reporting directly to the AAC; and
- a confidential whistleblowing process.

In addition, the AAC:

- considers the appointment of the external auditor, making appropriate recommendations to the Board, and assesses the independence of the external auditor;
- ensures that the provision of non-audit services does not impair the external auditor's independence or objectivity;
- discusses with the external auditor, before the audit commences, the nature and the scope of the audit and reviews the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- reviews external auditor management letters and responses from management;
- has a standing agenda to meet privately with the external auditor ie independent of the Company's executive directors; and
- reviews the scope, operations and reports of the BAA Group's Internal Audit function on the effectiveness of systems for internal financial control, financial reporting and risk management.

Risk management

Risk management in the Group facilitates the identification, evaluation and effective management of the threats to the achievement of the Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed. Particular emphasis is given to safety, security, environment, reputation, operations and finance in pursuit of the 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.

Internal controls and risk management *continued*

Risk management *continued*
The operation of the process and the individual registers are subject to periodic review by the 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).

The principal corporate and reputational risks as identified by the Executive Committee are:

Safety risks
Health and safety is a core value of the business and the Group 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 our business. The Group 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.

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

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

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

Competition rules
The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Group, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Group breaching these regulations. Refer to the Management review section for details on the process to modernise the economic regulation of UK airports and the Competition Commission's inquiry into the supply of UK airport services by BAA.

Capacity shortfall
Failure to secure necessary planning permissions could lead to the Group having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service. The UK government's policy on airport capacity changes has a significant influence on the Group's ability to secure necessary planning permissions and develop capacity. The Group mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in government consultations and other advisory groups. In addition, investment in additional capacity at the Group's airports will be partly dependent on an appropriate level of investment incentives being provided in future regulatory settlements.

Existing planning approvals provide for passenger traffic to grow to approximately 90 million and 35 million at Heathrow and Stansted respectively.

Internal controls and risk management *continued*

Regulatory environment, legal and other reputational risks continued

Environmental risks

Environmental risk is managed throughout the Group as it has the potential to impact negatively upon the Group's reputation and jeopardise its licence to operate and to grow. The Group controls and mitigates these risks at a number of levels. Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives. Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established. The Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks

Operational disruption

There are a number of circumstances that can pose short-term risks to the normal operations of the Group's airports such as shocks to the macroeconomic environment, terrorism, wars, airline bankruptcies, human health scares, weather conditions and natural disasters whose cause may be remote from the location of the Group's airports. These conditions can have a particularly significant impact on an airport such as Heathrow where, due to operating close to full capacity, there is negligible spare capacity to utilise in recovering from some of the above conditions. Where possible the Group seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible.

Capital projects

The BAA Group recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The BAA Group mitigates this risk through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction. The process is continually improved incorporating lessons learnt and "best practice" distilled from knowledge sharing with other client programmes, expertise within its supply chain and guidance from professional bodies.

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the BAA Group. Since it is not possible to identify the timing or period of such an effect, the BAA Group carries out evaluations through a series of scenario planning exercises.

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Group is recognised. The Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The Heathrow pay agreement reached in early 2011 established the pay structure for 2011, 2012 and 2013 - the next pay negotiations are planned for January 2014. The Group could also be exposed in the short-term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers, baggage handlers and the UK Border Agency.

Treasury

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

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the 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.

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

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

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

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

BAA (SP) Limited

Internal controls and risk management *continued*

Treasury continued

(d) Funding and liquidity

The Group has established an investment grade financing platform for its airports. This platform supports bank term debt, bank revolving credit facilities including a revolving capital expenditure facility, bank liquidity facilities and sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the 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 Group is not exposed to excessive refinancing risk in any one year.

The Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under its revolving capital expenditure facility. As at 31 December 2011, the Group's 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 Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

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

On behalf of the Board

José Leo
Director

22 February 2012

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2011.

Principal activities
The principal activity of BAA (SP) Limited is as the holding company of BAA (AH) Limited, owner of the designated airports (Heathrow and Stansted airports) and BAA Funding Limited, the bond issuer of the Group.

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are reported in the Business review on pages 2 to 18.

Results and dividends
The loss after taxation for the financial year amounted to £191.5 million (2010: £321.8 million). Dividends of £24.8 million were paid during the year (2010: £nil). The statutory results for the year are set out on page 23.

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

José Leo
Frederick Maroudas

Employment policies
The Group's employment policies are regularly reviewed and updated to ensure they remain effective. The Group's overall aim is to create and sustain a high performing organisation by building on the commitment of its people.

The Group has defined a set of guiding principles to ensure fair recruitment and selection. The Group continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles.

The Group is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, colour, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Group actively encourages a diverse range of applicants and commits to fair treatment of all applicants. The Group's investment in learning and development is guided by senior line managers who ensure that the Group provides the learning opportunities to support the competencies that are seen as key to the Group's success.

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Group has further procedures to ensure that disabled colleagues are fairly treated and that their training and career development needs are carefully managed. Where employees have become disabled during the course of employment, the Group endeavours to ensure continuing employment through the arrangement of appropriate training.

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, roadshows and an intranet. The Group also operates frameworks for consultation and is committed to managing people through change fairly.

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. Bonuses paid to employees reflect the financial performance of the business. In addition, senior management participate in a long-term incentive plan which also rewards based on BAA Group performance.

Supplier payment policies
The Group complies with the UK government's better payment practice code which states that responsible companies should:
- agree payment terms at the outset of a transaction and adhere to them;
- provide suppliers with clear guidance on payment procedures;
- pay bills in accordance with any contract agreed or as required by law; and
- advise suppliers without delay when invoices are contested and settle disputes quickly.

The Group had 28 days purchases outstanding at 31 December 2011 (2010: 14 days) based on the average daily amount invoiced by suppliers during the year.

BAA (SP) Limited

Directors' report *continued*

Donations
The Group's charitable donations for the year amounted to £13,000 (2010: £178,000). The main beneficiaries of charitable donations, the relevant amounts donated and the main activities of these beneficiaries are as follows:

Charity: Groundwork Thames Valley	£13,000	Promotes conservation, protection and improvement of the physical/natural environment. Implements recreational/leisure solutions which enhance social welfare in the community. Advances public education in environmental/sustainability issues. Via a social enterprise, contributes to wider national strategies on crime reduction.

In addition to the donations above, the BAA Group contributes to a number of charitable causes through BAA Communities Trust and Heathrow Travelcare.

The Group may incur expenditure which could be classified as political donations under the Political Parties, Elections and Referendums Act 2000 and Part 14 of the Companies Act 2006. The Group obtained a renewed shareholders' approval in February 2012 to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years. In the Group's view there was no expenditure in the year to 31 December 2011 (2010: £nil) that falls within this category.

Internal controls and risk management
The Group actively manages all identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Group's internal controls and risk management policies can be found on pages 15 to 18 in the Internal controls and risk management section of the Business review.

Financial risk management objectives and policies
The Group's financial risk management objectives and policies, including hedging policies along with the Group's exposure to risk can be found on pages 17 and 18 in the Internal controls and risk management section of the Business review.

Post balance sheet events
In February 2012, the Competition Appeal Tribunal ('CAT') rejected the BAA Group's request that it should review the Competition Commission's July 2011 decision that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision, particularly that the BAA Group should dispose of Stansted airport. The BAA Group is currently considering its position in light of the CAT's decision.

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

Auditor
Pursuant to the provisions of section 485(4) of the Companies Act 2006, an ordinary resolution was made by the directors to appoint Deloitte LLP as auditor of the Company for the year ended 31 December 2011.

Statement of disclosure of information to the Auditor
Each of the persons who is a director at the date of approval of this Annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

On behalf of the Board

José Leo
Director

22 February 2012
Company registration number: 06458621

Directors' responsibilities statement

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

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

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

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

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

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

José Leo
Director

22 February 2012

BAA (SP) Limited

Independent auditor's report to the members of BAA (SP) Limited

We have audited the financial statements of BAA (SP) Limited for the year ended 31 December 2011 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, the Consolidated reconciliation of movements in shareholder's funds, the Consolidated balance sheet, the Consolidated cash flow statement, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of BAA (SP) Limited for the year ended 31 December 2011.

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

22 February 2012

BAA (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Turnover – continuing operations	*1*	**2,280.0**	2,074.3
Operating costs – ordinary	*2*	**(1,656.8)**	(1,584.1)
Operating (costs)/gain – exceptional: pensions	*3*	**(40.3)**	89.9
Operating costs – exceptional: other	*3*	**(10.8)**	(31.4)
Total operating costs		**(1,707.9)**	(1,525.6)
Total operating profit - continuing operations	*1*	**572.1**	548.7
Impairment of fixed assets – exceptional	*3*	**-**	(149.3)
Gain on disposal of Gatwick airport – discontinued operations	*3*	**7.9**	16.2
Interest receivable and similar income	*4*	**220.4**	162.2
Interest payable and similar charges	*4*	**(1,010.3)**	(858.6)
Fair value loss on financial instruments	*4*	**(45.9)**	(35.8)
Net interest payable and similar charges	*4*	**(835.8)**	(732.2)
Loss on ordinary activities before taxation		**(255.8)**	(316.6)
Tax credit/(charge) on loss on ordinary activities	*5*	**64.3**	(5.2)
Loss on ordinary activities after taxation	*22*	**(191.5)**	(321.8)

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

BAA (SP) Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Loss for the financial year	*22*	**(191.5)**	(321.8)
Unrealised gain on revaluation of investment properties	*19*	**43.5**	28.5
Losses on cash flow hedges taken directly to equity	*21*	**(290.2)**	(99.3)
Deferred tax credit arising on cash flow hedges taken directly to equity	*21*	**68.6**	25.1
		(178.1)	(45.7)
Total recognised losses for the year		**(369.6)**	(367.5)

Consolidated 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
Loss for the financial year	*22*	**(191.5)**	(321.8)
Other recognised losses relating to the year (net)		**(178.1)**	(45.7)
Dividends paid	*22*	**(24.8)**	-
Proceeds of ordinary shares issued for cash	*17*	**-**	0.4
Premium on ordinary shares issued	*18*	**-**	217.0
Capital distribution	*22*	**-**	(16.1)
Tax on capital contribution	*22*	**-**	(23.9)
Net movement in shareholder's funds		**(394.4)**	(190.1)
Opening shareholder's funds		**635.9**	826.0
Closing shareholder's funds		**241.5**	635.9

BAA (SP) Limited

Consolidated balance sheet as at 31 December 2011

	Note	31 December 2011 £m	31 December 2010 £m
Fixed assets			
Tangible fixed assets	6	**12,160.5**	11,678.2
Financial assets – derivative financial instruments	14	**369.1**	551.7
Total fixed assets		**12,529.6**	12,229.9
Current assets			
Stocks	7	**8.0**	5.5
Debtors	8	**305.9**	357.7
Financial assets – derivative financial instruments	14	**170.9**	0.1
Current asset investments	9	**21.0**	41.0
Cash at bank and in hand	10	**12.2**	6.1
Total current assets		**518.0**	410.4
Current liabilities			
Creditors: amounts falling due within one year	11	**(1,553.2)**	(586.2)
Net current liabilities		**(1,035.2)**	(175.8)
Total assets less current liabilities		**11,494.4**	12,054.1
Creditors: amounts falling due after more than one year	12	**(11,096.0)**	(11,060.1)
Deferred tax	15	**(123.1)**	(271.1)
Provisions for liabilities and charges	16	**(33.8)**	(87.0)
Net assets	1	**241.5**	635.9
Capital and reserves			
Called up share capital	17	**11.0**	11.0
Share premium reserve	18	**499.0**	499.0
Revaluation reserve	19	**1,514.4**	1,470.9
Merger reserve	20	**(4,535.6)**	(4,535.6)
Fair value reserve	21	**(396.3)**	(174.7)
Profit and loss reserve	22	**3,149.0**	3,365.3
Total shareholder's funds	1	**241.5**	635.9

The financial statements of BAA (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 22 February 2012. They were signed on its behalf by:

José Leo
Director

Frederick Maroudas
Director

BAA (SP) Limited

Consolidated cash flow statement as at 31 December 2011

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Net cash inflow from operating activities	*25*	**1,132.2**	918.5
Return on investment and servicing of finance			
Interest received		**0.4**	0.8
Interest paid		**(389.2)**	(394.6)
Net cash outflow from returns on investments and servicing of finance		**(388.8)**	(393.8)
Taxation – group relief paid		**(27.2)**	(17.1)
Capital expenditure			
Net cash outflow for capital expenditure		**(864.7)**	(841.1)
Acquisition and disposals			
Disposal of subsidiary – proceeds		**-**	1.4
Disposal of subsidiary – pension and disposal costs	*3*	**(6.1)**	(126.7)
Net cash outflow from acquisitions and disposals		**(6.1)**	(125.3)
Dividends paid	*22*	**(24.8)**	-
Net cash outflow before use of liquid resources and financing		**(179.4)**	(458.8)
Management of liquid resources			
Decrease in short-term deposits	*9*	**20.0**	193.5
Net cash inflow from management of liquid resources		**20.0**	193.5
Financing			
Issuance of bonds	*13*	**1,507.9**	830.1
Drawdown of Class B facility	*13*	**-**	625.0
Drawdown of capital expenditure facility	*13*	**95.0**	600.0
Repayment of facilities and other items	*13*	**(1,339.8)**	(1,037.5)
Increase/(decrease) in amount owed to BAA (SH) plc	*13*	**31.8**	(1,000.0)
Settlement of accretion on index-linked swaps		**(15.0)**	-
Cancellation of derivatives		**(114.4)**	(73.9)
Prepayment of derivative interest		**-**	(36.7)
Restricted cash		**-**	143.0
Issuance of ordinary share capital	*17,18*	**-**	217.4
Net cash inflow from financing		**165.5**	267.4
Increase in cash	*10*	**6.1**	2.1
Reconciliation to net debt			
Net debt at 1 January	*25*	**(10,476.3)**	(10,291.5)
Increase in cash	*10*	**6.1**	2.1
Movement in liquid resources	*9*	**(20.0)**	(193.5)
Movement in external borrowings	*13*	**(263.1)**	(1,017.6)
Movement in inter-company borrowings	*13*	**(31.8)**	1,000.0
Fair value adjustments	*25*	**(14.5)**	88.7
Other non-cash changes	*25*	**(52.4)**	(64.5)
Net debt at 31 December	*25*	**(10,852.0)**	(10,476.3)

Accounting policies for the year ended 31 December 2011

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

Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments, in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

Going concern

The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Group, as part of the BAA Limited Group (the 'BAA Group'), has adequate resources to continue in operational existence for the foreseeable future.

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

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

Although the Group is in a net current liability position, the Directors have, as a result of the review, and having made appropriate enquiries of management, a reasonable expectation that sufficient funds will be available to meet the Group's funding requirement for the next twelve months from the balance sheet signing date.

Basis of consolidation

The Group financial statements consolidate the financial statements of BAA (SP) Limited and all its subsidiaries.

The BAA (SP) Limited Group was formed in 2008 as part of a wider BAA Group refinancing and group reconstruction. In 2008 the Company acquired BAA (AH) Limited, which owns the Designated Airports comprising the UK regulated airports of Heathrow and Stansted. The Group also operates the Heathrow Express rail service between Heathrow and Paddington, London. BAA (SP) Limited is the holding company of BAA Funding Limited, which is the bond issuer for the Group.

The group reconstruction was accounted for using the merger method of accounting whereby the principles applied were as follows:

- the acquired entities' results are included in the Group's consolidated financial statements as if the entities had always been combined and comparative amounts prepared accordingly;
- the Group does not restate assets and liabilities to their fair values. Instead, the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company adjusted only to achieve harmonisation of accounting policies; and
- no goodwill arises in merger accounting, the differences arising on consolidation are included in a merger reserve.

The Group applied acquisition accounting on the acquisition of Heathrow Express Operating Company Limited ('HEX') which took place on 7 August 2008 as this was not deemed to have been a part of the initial group reconstruction process.

Turnover

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

Aeronautical

- Passenger charges based on the number of departing passengers on departure.
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on a combination of weight and time parked as provided.
- Other charges levied for passenger and baggage operation when these services are rendered.

Retail

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

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

Turnover *continued*

Property and operational facilities

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

Rail

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

Other

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

Exceptional items

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

Such events may include gains or losses on the disposal of businesses or assets, major reorganisation of businesses, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project.

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

Interest

Interest payable and interest receivable are recognised in the profit and loss account in the period in which they are incurred.

Discontinued operations

Discontinued operations consist of business segments and other non-core assets that have either been sold during the year or are expected to be sold before the earlier of three months after the balance sheet date and the date on which the financial statements are signed.

Tangible fixed assets

Operational assets

Terminal complexes, airfield assets, plant and equipment, rail assets and other land and buildings are stated at cost less accumulated depreciation and impairment losses.

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Group. The Group reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

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

Tangible fixed assets *continued*
Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the reporting date, as determined at the interim and full-year reporting dates by the directors and external valuers every year. Any surplus or deficit on revaluation is transferred to the revaluation reserve with the exception of deficits below original cost which are expected to be permanent, which are charged to the profit and loss account in the period in which they arise.

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits or losses are recognised on completion.

In accordance with Statement of Standard Accounting Practice 19 *Accounting for Investment Properties*, no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 2006 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the Directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The Directors consider that this policy results in the accounts giving a true and fair view.

Capitalisation of interest
Interest payable resulting from financing tangible fixed assets whilst in the course of construction is capitalised once planning permission has been obtained and a firm decision to proceed has been taken. Capitalisation of interest ceases once the asset is complete and ready for use. Interest may be capitalised in the early stages of planning where the Directors are satisfied that the necessary planning, building and resource consents will be received. Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

All other interest payable is recognised in the profit and loss account in the period in which it is incurred.

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

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

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

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

Tangible fixed assets *continued*

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Leases

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

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

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income.

Stocks

Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value.

Debtors

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

Restricted cash

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

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

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

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Amounts owed to group undertakings
Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

Deferred income
Contractual income is treated as deferred income and released to the profit and loss account as earned.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method. Borrowings being novated or cancelled and re-issued with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the profit and loss account.

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

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

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

Classification of financial instruments issued by the Group
In accordance with FRS 25 *Financial Instruments: Disclosure and Presentation*, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:
(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

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

Classification of financial instruments issued by the Group *continued*
The Group is exempt from reporting information under FRS 29 *Financial Instruments: Disclosures* because the consolidated financial statements of its immediate parent BAA (SH) plc (formerly BAA (SH) Limited) is prepared in accordance with IFRS 7 *Financial Instruments: Disclosures.*

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

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

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

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

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

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

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

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

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised in the profit and loss account over the period to maturity.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

Derivative financial instruments and hedging activities *continued*

Derivatives at fair value through the profit and loss account

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the profit and loss account.

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within net interest payable and other similar charges in the profit and loss account. The interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account.

Accounting for changes in credit risk

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

Embedded derivatives

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

Shared Services Agreement ('SSA')

All employees of the Group are employed directly by BAA Airports Limited with the exception of non-senior management at Heathrow Express Operating Company Limited ('HEX'). BAA Airports Limited also acts as the provider of corporate and administrative services to the Group, grants all employee benefits and administers and sponsors the related pension plans.

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

Operational staff

BAA Airports Limited charges the airports for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of BAA Airports Limited in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to employee share options. All of the amounts included in the abovementioned costs are settled in cash except for superannuation costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by BAA Airports Limited.

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 airports.

Pension costs

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

The Group's airports and HEX have had a legal obligation since August 2008 to fund or benefit from their 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 Group accounts for the scheme in accordance with the SSA. Additionally the Group discloses information about the total scheme surplus or deficit.

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

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

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

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

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

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

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

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

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

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

Related party disclosures
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Group are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2011. The results are also included in the audited consolidated financial statements of BAA (SH) plc for the year ended 31 December 2011 (immediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2011.

The Group 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 Group's accounting policies management have made estimates and judgements in a number of key areas. Actual results may, however, differ from the estimates calculated and management believes that the following areas present the greatest level of uncertainty.

Investment properties
Investment properties were valued at fair value at 31 December 2010 and 31 December 2011 by CB Richard Ellis, Chartered Surveyors and Strutt & Parker, Chartered Surveyors. Strutt & Parker were responsible solely for the valuation of residential property at Stansted. The valuations were prepared in accordance with relevant accounting standards and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Independent valuations have been obtained for 100% of the investment properties. Approximately 76% of the investment properties comprise car parks and airside assets at the Group's airports that are considered less vulnerable to market volatility than the overall market.

Taxation
Provisions for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures. Amounts provided are based on management's interpretation of UK tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions will probably be sustained. In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current tax creditors.

Hedge accounting
Interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of existing liabilities and forecast transactions. This is based on management's expectation that it is highly probable that future sterling funding issuances will be used to refinance existing debt. As at 31 December 2011, £527.8 million of fair value losses (2010: £227.4 million) on these derivatives have been deferred into the cash flow hedge reserve.

Management compares on a regular basis existing hedging arrangements against expectations for future financing. If there were significant changes in the expected quantum of future sterling financing, this may require the recycling of the cash flow hedge reserve through the profit and loss account.

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

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

1 Segment information

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

	Turnover		Operating profit		Net assets/(Liabilities)	
	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m	**31 December 2011 £m**	31 December 2010 £m
Heathrow	**2,045.6**	1,844.7	**526.8**	482.0	**1,452.0**	1,676.4
Stansted	**234.4**	229.6	**39.4**	61.0	**887.6**	933.5
Other entities and adjustments[1]	**-**	-	**5.9**	5.7	**(2,098.1)**	(1,974.0)
Total	**2,280.0**	2,074.3	**572.1**	548.7	**241.5**	635.9

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

Reconciliation of Adjusted EBITDA and operating profit

Adjusted EBITDA has been used to provide a clearer indication of the performance of the individual airports and to assist better comparison with the prior year. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

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

Year ended 31 December 2010	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation[1] £m	Operating profit £m
Heathrow	875.1	43.3	(436.4)	482.0
Stansted	86.2	15.1	(40.3)	61.0
Other entities and adjustments[2]	5.6	0.1	-	5.7
Total	966.9	58.5	(476.7)	548.7

[1] Depreciation excluding exceptional accelerated depreciation and impairment which is included within operating exceptional items.
[2] The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and the parent company BAA (SP) Limited.

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

2 Operating costs – ordinary

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Wages and salaries	**271.0**	253.1
Social security	**23.9**	20.2
Pensions	**29.7**	29.6
Other staff related	**14.5**	9.7
Share-based payments	**-**	3.1
Employment costs[1]	**339.1**	315.7
Maintenance expenditure	**137.0**	134.8
Utility costs	**110.8**	115.6
Rents and rates	**129.4**	117.0
General expenses	**133.2**	133.0
Retail expenditure	**31.0**	30.6
Intra-group charges/other	**168.2**	160.1
Police	**36.2**	35.9
Aerodrome navigation service charges	**63.3**	64.4
Depreciation	**508.9**	476.7
(Gain)/loss on disposal of tangible fixed assets	**(0.3)**	0.3
	1,656.8	1,584.1

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

Rentals under operating leases

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Operating costs include:		
Plant and machinery	**34.8**	34.3
Other operating leases	**15.0**	13.5

Auditor's 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 £m	Year ended 31 December 2010 £m
Fees payable to the Company's auditor for the audit of the BAA (SP) Limited group annual accounts		
Audit of the Company's subsidiaries, pursuant to legislation	**0.5**	0.4
Total audit fees	**0.5**	0.4
Fees payable to the Company's auditor and their associates for other services specific to the BAA (SP) Limited group		
Tax services	**0.2**	-
Information technology services – pre appointment[1]	**-**	0.9
Information technology services – post appointment[1]	**0.2**	0.2
Corporate finance services[2]	**0.3**	-
Other services	**0.1**	-
Total non-audit fees	**0.8**	1.1
Total fees	**1.3**	1.5

[1] Prior to Deloitte LLP's appointment as auditor, Deloitte MCS Limited were engaged to assist management with the implementation of a new reporting and consolidation system. The majority of the work performed by Deloitte MCS Limited was undertaken before appointment of Deloitte LLP as external auditor on 1 April 2010.

[2] Corporate finance fees largely relate to reporting accountant work (required to be performed by the auditor) associated with supporting the raising of external finance within the group.

Employee numbers
The Group has no employees other than the majority of HEX employees which in 2011 averaged 435 (2010: 411). Other staff engaged in the operation of the Group's airports are employed by BAA Airports Limited which bears the related staff costs and recharges all such costs directly to the Group's airports. The average number of employees of BAA Airports Limited engaged in the Group's operations during the year was 6,403 (2010: 6,269).

Directors' remuneration
Jose 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 within the BAA Group 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.

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

3 Exceptional items

	Year ended 31 December 2011 £m	Restated[1] Year ended 31 December 2010 £m
Operating costs – exceptional: pensions		
Pension (charge)/credit	**(40.3)**	89.9
Operating costs – exceptional: other		
Accelerated depreciation and impairment	**(11.0)**	(18.7)
Reorganisation credit/(costs)	**0.2**	(12.7)
Total operating exceptional items - continuing	**(51.1)**	58.5
Exceptional impairment of fixed assets	**-**	(149.3)
Gain on disposal of Gatwick airport – discontinued operations	**7.9**	16.2
Total non-operating exceptional items	**7.9**	(133.1)
Taxation on exceptional items	**10.0**	(15.8)
Total exceptional items after tax	**(33.2)**	(90.4)

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

During 2011 there was a net exceptional pension charge of £40.3 million (2010: £89.9 million credit). This includes the Group's share of the movement in the BAA Airports Limited defined benefit pension scheme, Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits as well as a re-allocation of pension balances between entities.

3 Exceptional items *continued*

The accelerated depreciation and impairment charge of £11.0 million (2010: £18.7 million – accelerated depreciation) in 2011 was in relation to an impairment charge on the Airtrack rail project which the Group has decided not to pursue. In 2010, the accelerated depreciation charge was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development.

The £0.2 million credit in 2011 was due to the release of provisions that were no longer required. The reorganisation costs in 2010 related primarily to various restructuring processes designed to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

During 2011, £7.9 million excess provisions for Gatwick disposal costs were released to the profit and loss account. This related to costs expected to be associated with the disposal including legal fees and other separation costs. The £16.2 million gain on disposal in 2010 reflected the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected, and the receipt of a further £1.4 million on the finalisation of Gatwick's balance sheet at completion of the disposal.

The £149.3 million exceptional impairment of tangible fixed assets in 2010 related to the Group withdrawing its planning permission applications for Stansted Generation 2 and ceasing work on the development of its planning application for a third runway at Heathrow. This was as a result of the change in UK government and its policy towards the development of new runways in the South East of England.

4 Net interest payable and similar charges

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Interest receivable and similar income		
Interest receivable on derivatives not in hedge relationship	**220.0**	160.3
Interest receivable from other group undertakings	**-**	1.1
Interest on bank deposits	**0.4**	0.8
	220.4	162.2
Interest payable and similar charges		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(462.2)**	(387.2)
Bank loans and overdrafts and related hedging instruments	**(157.6)**	(193.5)
Interest payable on derivatives not in hedge relationship[2]	**(347.4)**	(214.1)
Facility fees	**(23.3)**	(26.8)
Interest on debenture payable to BAA (SH) plc	**(46.9)**	(59.7)
	(1,037.4)	(881.3)
Less capitalised interest[3]	**27.1**	22.7
	(1,010.3)	(858.6)
Net interest payable before fair value loss	**(789.9)**	(696.4)
Fair value gain/(loss) on financial instruments		
Interest rate swaps: cash flow hedge[4]	**3.1**	(6.3)
Index-linked swaps: not in hedge relationship[5]	**(88.7)**	(35.5)
Cross-currency swaps: cash flow hedge[4]	**12.2**	6.0
Cross-currency swaps: fair value hedge[4]	**30.8**	0.7
Fair value re-measurements of foreign exchange contracts and currency balances	**(3.3)**	(0.7)
	(45.9)	(35.8)
Net interest payable and similar charges	**(835.8)**	(732.2)

[1] Includes accretion of £15.4 million (2010: £11.8 million) on index-linked bonds.
[2] Includes accretion of £231.8 million (2010: £106.8 million) on index-linked swaps.
[3] Capitalised interest included in the cost of qualifying assets is calculated by applying an average capitalisation rate of 2.08% (2010: 2.22%) to expenditure incurred on such assets.
[4] Hedge ineffectiveness on derivatives in hedge relationship.
[5] Reflects the impact on the valuation of movements in implied future inflation and interest rates.

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

5 Tax on loss on ordinary activities

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Current tax			
Current tax charge at 26.5% (2010: 28%)		**(21.0)**	(21.2)
Adjustments in respect to prior years		**5.9**	(3.1)
Total current tax		**(15.1)**	(24.3)
Deferred tax			
Origination and reversal of timing differences		**59.0**	48.7
Adjustments in respect to prior years		**(3.6)**	(41.8)
Change in UK Corporation tax rate - impact on deferred tax liabilities		**24.0**	12.2
Total deferred tax	*15*	**79.4**	19.1
Tax credit/(charge) on loss on ordinary activities		**64.3**	(5.2)

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 period and prior period 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
Loss on ordinary activities before tax	**(255.8)**	(316.6)
Tax calculated at the UK statutory rate of 26.5% (2010: 28%)	**67.8**	88.6
Effect of:		
Permanent differences	**(29.8)**	(17.8)
Non taxable income	**-**	0.3
Depreciation for the year in excess of capital allowances	**(75.2)**	(91.2)
Capitalised interest	**6.8**	6.4
Impairment of fixed assets	**-**	(41.8)
Other short-term timing differences	**9.4**	34.3
Adjustments in respect of current tax of previous periods	**5.9**	(3.1)
Current tax charge for the year	**(15.1)**	(24.3)

The standard rate of corporation tax in the UK will change to 25% with effect from 1 April 2012. Other than this change, and the unprovided deferred tax discussed in Note 15, there are no items which would materially affect the future tax charge.

6 Tangible fixed assets

	Note	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Rail assets £m	Other land and buildings £m	Plant, equipment and other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation										
1 January 2011		**2,129.4**	**88.1**	**7,919.6**	**1,234.2**	**1,368.0**	**104.7**	**589.2**	**1,575.3**	**15,008.5**
Additions		**26.0**	**-**	**3.5**	**-**	**-**	**-**	**7.5**	**897.8**	**934.8**
Transfers to completed assets		**0.2**	**-**	**526.1**	**14.5**	**14.3**	**6.9**	**75.2**	**(637.2)**	**-**
Interest capitalised		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27.1**	**27.1**
Disposals		**(3.2)**	**-**	**(0.1)**	**-**	**-**	**-**	**(0.4)**	**-**	**(3.7)**
Reclassifications		**(5.6)**	**-**	**-**	**-**	**-**	**5.6**	**-**	**-**	**-**
Revaluation	*19*	**40.7**	**5.6**	**-**	**-**	**-**	**-**	**-**	**-**	**46.3**
Revaluation adjustment	*19*	**-**	**-**	**-**	**-**	**-**	**(2.8)**	**-**	**-**	**(2.8)**
31 December 2011		**2,187.5**	**93.7**	**8,449.1**	**1,248.7**	**1,382.3**	**114.4**	**671.5**	**1,863.0**	**16,010.2**
Depreciation										
1 January 2011		**-**	**-**	**(2,331.6)**	**(283.3)**	**(291.4)**	**(30.7)**	**(393.3)**	**-**	**(3,330.3)**
Charge		**-**	**-**	**(354.5)**	**(39.4)**	**(52.2)**	**(6.0)**	**(67.8)**	**-**	**(519.9)**
Disposals		**-**	**-**	**0.1**	**-**	**-**	**-**	**0.4**	**-**	**0.5**
Reclassifications		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2011		**-**	**-**	**(2,686.0)**	**(322.7)**	**(343.6)**	**(36.7)**	**(460.7)**	**-**	**(3,849.7)**
Net book value 31 December 2011		**2,187.5**	**93.7**	**5,763.1**	**926.0**	**1,038.7**	**77.7**	**210.8**	**1,863.0**	**12,160.5**
Net book value 31 December 2010		2,129.4	88.1	5,588.0	950.9	1,076.6	74.0	195.9	1,575.3	11,678.2

6 Tangible fixed assets *continued*

Valuation

Investment properties and land held for development were valued at open market value at 31 December 2011 by CB Richard Ellis, Chartered Surveyors at £2,194.5 million (2010: £2,130.1 million) and by Strutt & Parker, Chartered Surveyors at £87.1 million (2010: £87.4 million), resulting in a total valuation of £2,281.6 million (2010: £2,217.5 million). Strutt & Parker were responsible solely for the valuation of residential property at Stansted. These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors taking account, inter alia, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a surplus of £46.3 million (2010: £30.5 million) has been recognised in the revaluation reserve.

Remaining terminal complexes, airfields, rail assets, other land and buildings, plant, equipment and other assets have been shown at cost less accumulated depreciation.

Historical cost

The historical cost of investment properties and land held for development at 31 December 2011 was £767.1 million (2010: £746.6 million).

Other land and buildings

Other land and buildings are freehold except for certain short leasehold properties with a net book value at 31 December 2011 of £16.9 million (2010: £19.0 million).

Assets in the course of construction

Assets in the course of construction primarily consist of projects at Heathrow for work on the new Terminal 2 and its satellite building. They also include the baggage system between Terminals 3 and 5 to transport baggage for transfer passengers.

Capitalised interest

Included in the net book value of fixed assets are interest costs of £931.4 million (2010: £943.1 million). £27.1 million (2010: £22.7 million) has been capitalised in the period at a capitalisation rate of 2.08% (2010: 2.22%) based on a weighted average cost of borrowings.

Capitalised interest of £27.1 million (2010: £22.7 million) has been treated as tax deductible in the period. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Leased assets

The Group has assets rented to third parties under operating leases as follows:

	31 December 2011 **£m**	31 December 2010 £m
Cost or valuation	**2,930.0**	2,928.6
Accumulated depreciation	**(204.5)**	(196.4)
Net book amount	**2,725.5**	2,732.2

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

7 Stocks

	31 December 2011 **£m**	31 December 2010 £m
Raw materials and consumables	**8.0**	5.5

The replacement cost of raw materials and consumables at 31 December 2011 and 31 December 2010 was not materially different from the amount at which they are included in the Balance sheet.

8 Debtors

	31 December 2011 £m	31 December 2010 £m
Trade debtors	**181.9**	149.7
Prepayments	**29.9**	37.1
Other debtors	**54.6**	47.8
Amounts owed by group undertakings[1]	**7.0**	54.2
Amounts owed by group undertakings – pensions[2]	**32.5**	68.9
	305.9	357.7

1 Amounts owed by group undertakings largely relate to external payments received by BAA Airports Limited under the Shared Services Agreement on behalf of the Group's airports that will be remitted to the airports in due course. This amount is payable on demand and accrues interest at Bank of England base rate +1.5%.
2 Amounts owed by group undertakings – pensions represents the Group's airports share of the surplus in the BAA Airports Limited defined benefit pension scheme allocated to the airports and HEX on the basis of pensionable salaries of those employees being in the defined benefit pension scheme. See note 16 for further details.

9 Current asset investments

	31 December 2011 £m	31 December 2010 £m
Short-term deposits	**21.0**	41.0

Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short and long-term credit ratings. Of these deposits, counterparties with a short-term credit rating of A-1+ held assets of £21.0 million as at 31 December 2011 (2010: A-1+ £41.0 million).

10 Cash at bank and in hand

	31 December 2011 £m	31 December 2010 £m
Cash at bank and in hand	**12.2**	6.1

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

11 Creditors: amounts falling due within one year

	Note	31 December 2011 £m	31 December 2010 £m
Deferred income		**30.7**	30.5
Interest accruals		**206.2**	161.9
Trade creditors[1]		**136.1**	124.6
Corporation tax		**8.7**	18.6
Other tax and social security		**7.7**	6.2
Group relief payable		**15.4**	17.6
Other creditors		**6.8**	6.9
Amounts owed to group undertakings[2]		**19.8**	0.4
Capital creditors		**250.1**	180.2
Borrowings	*13*	**871.7**	39.1
Derivative financial instruments	*14*	**-**	0.2
		1,553.2	586.2

1 Trade creditors are non-interest bearing and are generally on 30-day terms.
2 Amounts owed to group undertakings largely relate to external payments made by BAA Airports Limited under the Shared Services Agreement on behalf of the Group's airports.

12 Creditors: amounts falling due after more than one year

	Note	31 December 2011 £m	31 December 2010 £m
Deferred income		**0.9**	2.7
Borrowings	*13*	**10,013.5**	10,484.3
Derivative financial instruments	*14*	**1,081.6**	573.1
		11,096.0	11,060.1

13 Borrowings

	31 December 2011 £m	31 December 2010 £m
Current borrowings		
Secured		
Bank loans	**39.1**	39.1
Bonds		
3.975% €1,000 million due 2012	**832.6**	-
Total current borrowings	**871.7**	39.1
Non-current borrowings		
Secured		
Syndicated term facility	**-**	1,292.2
Capital expenditure facility	**1,395.0**	1,300.0
Other bank loans	**870.0**	907.2
	2,265.0	3,499.4
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	**588.8**	593.9
12.450% £300 million due 2016	**356.3**	367.2
4.125% €500 million due 2016	**398.5**	413.6
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$1,000 million due 2021	**683.3**	-
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[1] (2010: £235 million)	**416.3**	246.7
5.875% £750 million due 2041	**737.3**	-
	7,150.9	6,419.1
Unsecured		
BAA (SP) Limited debenture payable to BAA (SH) plc	**597.6**	565.8
Total non-current borrowings	**10,013.5**	10,484.3
Total borrowings	**10,885.2**	10,523.4

[1] The existing index-linked bond was re-opened in May 2011 generating proceeds of £154.3 million.

The average cost of the Group's external gross debt at 31 December 2011 was 4.17% (2010: 4.44%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion the Group's average cost of debt at 31 December 2011 was 6.45% (2010: 5.63%). The increase in the average cost of debt (including index-linked accretion) is the result of a number of factors including the replacement of short-term bank debt with higher cost bond debt and the impact of high current inflation on the accretion payable on index-linked swaps and bonds.

Syndicated term facility

The syndicated term facility was repaid in full in September 2011 primarily using proceeds from bond issues.

Bonds

The bonds are all issued by BAA Funding Limited. Their 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 scheduled redemption date of which coincides with its legal maturity date.

13 Borrowings *continued*

Fair value of borrowings

	31 December 2011		31 December 2010	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Long-term debt	**10,013.5**	**10,875.5**	10,484.3	11,114.1

The fair value of short-term borrowings approximates book value. The fair values of listed borrowings are based on quoted prices. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair values of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Securities and guarantees
Heathrow Airport Limited, Stansted Airport Limited, HEX, BAA (SP) Limited and BAA (AH) Limited (together, the 'Obligors') have granted security over their assets to secure their obligations under their financing agreements. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors.

BAA Pension Trust Company Limited (the BAA Pension Trustee) is a Borrower Secured Creditor and has a right to receive up to £300 million out of the proceeds of enforcement of the security granted by the Obligors, such right ranking pari passu with the senior (Class A) creditors to the Obligors.

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

Heathrow Airport Limited, Stansted Airport Limited and HEX have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of their liabilities under the Borrower Account Bank Agreement.

Liquidity
As at 31 December 2011, the Group had cash and liquid resources of £33.2 million (2010: £47.1 million) and undrawn committed facilities of £1,355.0 million (2010: £1,450.0 million).

14 Derivative financial instruments

31 December 2011	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Cross-currency swaps – cash flow hedge	**680.2**	**170.9**	**-**	**170.9**
Foreign exchange contracts – no hedge accounting	**6.5**	**-**	**-**	**-**
	686.7	**170.9**	**-**	**170.9**
Non-current				
Interest rate swaps – cash flow hedge	**3,191.0**	**-**	**(433.8)**	**(433.8)**
Cross-currency swaps – cash flow hedge	**510.2**	**118.1**	**-**	**118.1**
Cross-currency swaps – fair value hedge	**1,568.0**	**250.6**	**(4.7)**	**245.9**
Index-linked swaps – no hedge accounting	**5,253.9**	**0.4**	**(643.1)**	**(642.7)**
	10,523.1	**369.1**	**(1,081.6)**	**(712.5)**
Total	**11,209.8**	**540.0**	**(1,081.6)**	**(541.6)**

31 December 2010	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts – no hedge accounting	10.0	0.1	(0.2)	(0.1)
	10.0	0.1	(0.2)	(0.1)
Non-current				
Interest rate swaps – cash flow hedge	3,000.3	-	(258.1)	(258.1)
Cross-currency swaps – cash flow hedge	1,190.4	358.4	-	358.4
Cross-currency swaps – fair value hedge	946.7	191.6	(18.9)	172.7
Index-linked swaps – no hedge accounting	4,113.9	1.7	(296.1)	(294.4)
	9,251.3	551.7	(573.1)	(21.4)
Total	9,261.3	551.8	(573.3)	(21.5)

14 Derivative financial instruments *continued*

Interest rate swaps

Interest rate swaps are maintained by the Group and designated as cash flow hedges where they qualify against variability in interest cash flows on current and future floating or fixed borrowings. The gains and losses deferred in equity on the cash flow hedges described above will be continuously released to the profit and loss account over the period of the hedged risk.

Index-linked swaps

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

Cross-currency swaps

Cross-currency swaps have been entered into by the Group to hedge currency risk and, in the case of cash flow hedges interest rate risk, on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on these swaps will be continuously released to the profit and loss account over the period to maturity of the hedged bonds.

Foreign exchange contracts

Foreign exchange forward and swap contracts are used to manage exposures relating to future capital expenditure. Hedge accounting is not sought for these derivatives.

15 Deferred tax

	Note	£m
1 January 2011		271.1
Credited to profit and loss account[1]	*5*	(79.4)
Credited to fair value reserve	*21*	(72.5)
Change in UK Corporation tax rate – charged to fair value reserve	*21*	3.9
31 December 2011		**123.1**

[1] Includes £24.0 million credit to the profit and loss account for change in tax rate from 27% to 25% effective 1 April 2012.

Analysis of the deferred tax balances is as follows:

	31 December 2011 £m	31 December 2010 £m
Excess of capital allowances over depreciation	**231.0**	317.7
Other timing differences	**(107.9)**	(46.6)
	123.1	271.1

	Un-provided 31 December 2011 £m	Un-provided 31 December 2010 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**308.9**	308.7
Tax on rolled over gains if replacement assets were sold at their current valuations	**8.8**	9.5
	317.7	318.2

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided for is £317.7 million (2010: £318.2 million). At present it is not envisaged that this tax will become payable in the foreseeable future.

The Finance Act 2011 enacted a reduction in the main rate of UK corporation tax from 27% to 26% with effect from 1 April 2011 and from 26% to 25% with effect from 1 April 2012. As a result, the Group's deferred tax balances, which were previously provided at 27%, have been re-measured at the rate of 25% in the year ended 31 December 2011. This has resulted in a reduction in the net deferred tax liability of £20.1 million, with £24.0 million credited to the profit and loss account (Note 5) and £3.9 million charged to reserves (Note 21).

16 Provisions for liabilities and charges

	Disposal of operations £m	Reorganisation costs £m	Pensions £m	Other £m	Total £m
1 January 2011	15.0	5.4	53.3	13.3	87.0
Utilised	(6.1)	(4.7)		(7.8)	(18.6)
Charged to profit and loss account	-	3.2	4.8	0.2	8.2
Credited/released to profit and loss account	(7.9)	-	(36.6)	-	(44.5)
Transferred in/(out)	-	-	-	1.7	1.7
31 December 2011	**1.0**	**3.9**	**21.5**	**7.4**	**33.8**

Disposal of operations
A provision is held for costs associated with the Group's disposal of Gatwick airport. All amounts are expected to be utilised in 2012.

Reorganisation costs
The costs associated with the Group's reorganisation programmes primarily relate to various restructuring processes designed to reduce the size and cost of overhead functions. These costs are for severance and pension payments only and are expected to be utilised in early 2012.

Pensions
The £21.5 million closing provision (2010: £16.7 million) 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.

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

17 Called up share capital

	£
Authorised	
At 1 January 2011 and 31 December 2011: 9,000,000,000 ordinary shares of £0.0019 each	17,100,000
Allotted and fully paid	
In issue at 1 January 2011 and 31 December 2011 : 5,773,555,178 ordinary shares of £0.0019 each	**10,969,755**

18 Share premium reserve

	£m
1 January 2011 and 31 December 2011	**499.0**

19 Revaluation reserve

	£m
1 January 2011	1,470.9
Unrealised gain on revaluation of investment properties	43.5
31 December 2011	**1,514.4**

20 Merger reserve

	£m
1 January 2011 and 31 December 2011	**(4,535.6)**

Refer to the Basis of consolidation section in the Accounting policies.

21 Fair value reserve

	£m
1 January 2011	(174.7)
Cash flow hedges	
Fair value losses	(392.9)
Transferred to profit and loss account	102.7
Deferred tax on fair value losses	72.5
Change in UK Corporation tax rate	(3.9)
31 December 2011	**(396.3)**

22 Profit and loss reserve

	£m
1 January 2010	3,727.1
Loss for the year	(321.8)
Capital distribution[1]	(16.1)
Tax on capital contribution[2]	(23.9)
1 January 2011	3,365.3
Loss for the year	(191.5)
Dividends paid[3]	(24.8)
31 December 2011	**3,149.0**

[1] The capital distribution relates to the commutation payment of £104.7 million made by BAA (AH) Limited to BAA Airports Limited defined benefit pension scheme following the disposal of Gatwick airport. As a result of this payment, the benefit was proportionately allocated to Heathrow, Stansted, HEX and other BAA airports. The benefits received by Heathrow, Stansted and HEX are shown as an increase in the value of investment in these entities by BAA (AH) Limited which is eliminated on consolidation into the BAA (SP) Group. The remaining benefit of £16.1 million received by the other BAA airports outside the BAA (SP) Group is shown as a capital distribution.

[2] The tax on capital contribution is in relation to the benefit received by Heathrow, Stansted and HEX.

[3] As part of the reversal of a £134.8 million loan made by BAA (SH) plc, the Group paid a £24.8 million dividend, with the remaining £110.0 million distributed through partial repayment of the loan.

23 Contingent liabilities

The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £256.0 million at 31 December 2011 (2010: £269.4 million).

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 Group. At 31 December 2011, the ESOP swaps held in BAA Airports Limited had a fair value loss of £50.5 million (2010: £75.6 million). The Group may be obligated to settle its share of these amounts in the future, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability and included in the amount above.

24 Commitments

Non-cancellable operating lease commitments – Group as a lessee

Annual commitments under non-cancellable operating leases expiring:

	31 December 2011		31 December 2010	
	Land and buildings	**Other**	Land and buildings	Other
	£m	**£m**	£m	£m
Within one year	**1.4**	**-**	0.2	0.1
Within two to five years	**1.6**	**-**	1.8	0.5
After five years	**10.4**	**50.0**	10.1	45.1
	13.4	**50.0**	12.1	45.7

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

A significant portion of the £50.0 million (2010: £45.7 million) operating lease commitments classified as 'Other' relates to electricity supply equipment at the airports leased on agreement with UK Power Networks Services Limited ('UPNS'). The lease expires in 2083. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to UPNS as neither the Group nor UPNS are able to split the base fee between a 'capital' and 'maintenance' charge.

Non-cancellable electricity purchase commitment

The Group has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Group until March 2013. Such commitments are for the normal purchase, sale or usage of electricity and hence are accounted for as ordinary purchase contracts. At 31 December 2011 the estimated minimum commitment for the future purchase of electricity under this contract totalled £34.9 million (2010: £90.8 million).

Group commitments for capital expenditure

	31 December 2011	31 December 2010
	£m	£m
Contracted for, but not accrued:		
Terminal 2A building - Heathrow	**631.2**	788.5
Terminal 2B phase 2 – Heathrow	**287.5**	446.7
Terminal 2 Multi Storey car park - Heathrow	**69.2**	-
Terminal 3 integrated baggage system – Heathrow	**39.5**	64.3
Eastern Campus ICS - Heathrow	**34.5**	-
Terminal 1 transfer baggage system - Heathrow	**12.5**	-
Rolling Stock Refresh/Rebrand – Heathrow Express	**10.9**	-
Minor asset replacement/refurbishment - Heathrow	**10.2**	-
Eastern Campus Leadership Team - Heathrow	**8.3**	1.0
Energy infrastructure – Heathrow	**6.8**	29.8
Major Foam Tenders - Stansted	**2.6**	-
Terminal 1 baggage prolongation programme - Heathrow	**-**	31.3
Terminal 3/5 transfer baggage system - Heathrow	**-**	23.8
Terminal 5C - Heathrow	**-**	17.9
	1,113.2	1,403.3
Other projects	**46.4**	58.0
	1,159.6	1,461.3

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. The Group has in place long-term capital expenditure programmes at its airports. BAA's submission to the CAA, in respect of the current regulatory period included capital expenditure for Heathrow of £5,136 million (2007/08 prices) including a maximum of £735 million in the extra year (to 31 March 2014) added to Heathrow's current regulatory period during 2011. Capital expenditure at Heathrow in 2012 is forecast to be approximately £1.2 billion. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project.

The capital programme included in Stansted's current price determination foresees total investment of £125 million until the end of March 2014. Capital expenditure at Stansted in 2012 is forecast to be approximately £20 million.

24 Commitments *continued*

Other commitments

The Group operates or in the recent past has operated blight compensation schemes relating to properties that might be affected by potential future runway developments at its airports. At both Heathrow and Stansted, there were schemes in operation as a result of the potential development of new runways but these schemes were closed following the change in government policy in relation to runway developments in South East England that occurred in 2010. Nevertheless, some residual commitments to purchase properties made before the relevant schemes were closed were fulfilled during 2011. All commitments have now been fulfilled at Stansted although commitments to purchase the final 26 properties near Heathrow remained outstanding at 31 December 2011. Properties purchased under these schemes are included within investment properties at a value of £125 million as at 31 December 2011 (2010: £108 million).

The Group is also required by the government to offer noise mitigation measures relating to existing airport activities. Based on the Group's evaluation, payments under current noise schemes are estimated at £31million spread over the five years commencing 2007. The schemes include the provision of noise insulation for community buildings and dwellings and assistance with the costs of relocation for dwelling owners. A review of the existing noise insulation and mitigation schemes commenced during 2010 and the Group publically consulted on proposed amendments in 2011. During the course of 2012 the Group expects to announce the outcome of the review and public consultation and launch any amendments to the current schemes.

In June 2006, the government announced its conclusions for the 2006-2012 night flights regime at the Group's airports. The regime committed the Group to introducing a new domestic noise insulation scheme at Heathrow and Stansted to address the impact of night flights on local communities. The Group estimates that payments under this scheme will total £62 million over the five years from 2008. The government was expected to consult on proposals for the post 2012 night flights regime during 2011. However that public consultation has been delayed and is now not expected until the end of 2012. Consequently a "rollover" of the existing restrictions is expected to be announced early in 2012. Until this consultation process is complete, the Group is unable to quantify potential obligations under a future night flights regime.

The January 2009 government Announcement for Adding Capacity at Heathrow requires the Group to review existing insulation and mitigation schemes; and to consider extending its noise insulation schemes to all community buildings and households in the new 57dBA contour that will experience an increase in noise of 3dBA or more. Until further consultation is carried out with the local communities, the significance of the Group's obligations in implementing these schemes is uncertain.

The trustees of the BAA Airports Limited defined benefit pension scheme have recently concluded the triennial valuation of the scheme and agreed with the BAA Group a schedule of cash contributions to be made to the scheme by the BAA Group from January 2012. The valuation was carried out as at 30 September 2010 and indicated a scheme deficit of £275 million calculated using the trustees' actuarial assumptions.

As part of the triennial valuation process, the BAA Group will pay £97 million per annum into the scheme from 2012 to 2014. This compares with a total contribution of £80 million per annum paid from 2009 to 2011. The amount being paid in each of the next three years includes £24 million which is aimed to eliminate the deficit over a period of 9 years. All but approximately £15 million of the new annual amount will be met by the Group's airports.

25 Notes to the consolidated cash flow statement

Net cash inflow from operating activities

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Continuing operations		
Operating profit	**572.1**	548.7
Adjustments for:		
Depreciation (including exceptional accelerated depreciation and impairment)	**519.9**	495.4
(Gain)/loss on disposal of fixed assets	**(0.3)**	0.3
Working capital changes:		
Increase in stock and debtors	**(34.6)**	(4.5)
Increase in creditors	**30.6**	18.0
Net release of provisions	**(7.3)**	(17.0)
Difference between pension charge and cash contributions	**(35.7)**	(32.5)
Exceptional pension charge/(credit)	**40.3**	(89.9)
Exceptional working capital settlement of intercompany balance[1]	**47.2**	-
Net cash inflow from continuing operations	**1,132.2**	918.5

[1] Reflects a one-off £47.2 million improvement in working capital following the implementation of the new BAA Group cash management process that has resulted in cash in transit to the Group being received faster.

Operating cash flows include under continuing operations an outflow of £4.7 million (2010: £8.9 million) for reorganisation costs.

Reconciliation in net debt

	1 January 2011 £m	**Cash flow £m**	**Transfers from long-term to short-term £m**	**Other non-cash changes[1] £m**	**31 December 2011 £m**
Cash at hand and in bank	6.1	6.1	-	-	**12.2**
Debt due within one year	(39.1)	568.8	(1,395.1)	(6.3)	**(871.7)**
Debt due after more than one year	(10,484.3)	(863.7)	1,395.1	(60.6)	**(10,013.5)**
Liquid resources	41.0	(20.0)	-	-	**21.0**
Net debt	**(10,476.3)**	**(308.8)**	**-**	**(66.9)**	**(10,852.0)**

[1] Relates to amortisation of issue costs, premiums and discounts, foreign exchange translations of foreign debt, fair value adjustments on hedged bonds and accretion accruals

Liquid resources are as defined in the Accounting policies under 'Cash and current asset investments'.

26 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Group is BAA (SH) plc, 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 Group's results are also included in the audited consolidated financial statements of BAA (SH) plc 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 Limited and FGP Topco Limited for the year ended 31 December 2011.

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

27 Subsidiaries

The Company's subsidiaries are as follows:

Holding companies
BAA (AH) Limited

Airport owners and operators
Heathrow Airport Limited †
Stansted Airport Limited †

Other
BAA Funding Limited #
Heathrow Express Operating Company Limited †
Heathrow Airport Community Board Insulation Limited †

† Held by a subsidiary undertaking
# Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned, incorporated in Great Britain and registered in England and Wales.

28 Post balance sheet events

In February 2012, the Competition Appeal Tribunal ('CAT') rejected BAA's request that it should review the Competition Commission's July 2011 decision that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision, particularly that BAA should dispose of Stansted airport. BAA is currently considering its position in light of the CAT's decision.

BAA (SP) Limited

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Independent auditor's report to the members of BAA (SP) Limited

We have audited the parent company financial statements of BAA (SP) Limited for the year ended 31 December 2011 which comprise the Company balance sheet, the Accounting policies and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

Opinion on financial statements
In our opinion the parent company financial statements:
- give a true and fair view of the state of the parent company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

Other matter
We have reported separately on the Group financial statements of BAA (SP) Limited for the year ended 31 December 2011.

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

22 February 2012

BAA (SP) Limited

Company balance sheet as at 31 December 2011

	Note	**31 December 2011 £m**	31 December 2010 £m
Fixed assets			
Investments in subsidiaries	*2*	**6,045.6**	6,045.6
Current assets			
Debtors: due within one year	*3*	**22.1**	68.1
: due after more than one year	*3*	**619.3**	600.0
Cash at bank and in hand		**0.2**	5.8
		641.6	673.9
Creditors: amounts falling due within one year	*4*	**(35.7)**	(60.4)
Net current assets		**605.9**	613.5
Total assets less current liabilities		**6,651.5**	6,659.1
Creditors: amounts falling due after more than one year	*5*	**(2,720.4)**	(2,593.5)
Net assets		**3,931.1**	4,065.6
Capital and reserves			
Called up share capital	*6*	**11.0**	11.0
Share premium reserve	*7*	**499.0**	499.0
Profit and loss reserve	*8*	**3,421.1**	3,555.6
Total shareholder's funds		**3,931.1**	4,065.6

These financial statements of BAA (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 22 February 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 the financial statements of BAA (SP) Limited (the 'Company') are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern
The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

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

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

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.

Interest
Interest payable and interest receivable are recognised in the profit and loss account in the period in which they are incurred.

Investments in subsidiaries
Investment in subsidiary held as fixed assets are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

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

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

Creditors
Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

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

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

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

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

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

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

Dividend distribution
A dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the shareholder's right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting. Interim dividends are recognised when paid.

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

Cash flow statement and related party disclosures
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2011. The results 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)*.

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 Company financial statements for the year ended 31 December 2011

1 Company result for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The loss of the Company for the year attributable to shareholders was £109.7 million (2010: £18.4 million).

2 Investments in subsidiaries

	£m
Cost	
1 January 2011 and 31 December 2011	7,373.6
Impairment	
1 January and 31 December 2011	(1,328.0)
Net book value 31 December 2011	**6,045.6**
Net book value 31 December 2010	6,045.6

The Company's principal subsidiary undertakings are BAA (AH) Limited, which is incorporated in Great Britain and registered in England and Wales, and BAA Funding Limited, which is incorporated in Jersey, Channel Islands. Details of the principal subsidiary undertakings of the Group are provided in Note 27 of the BAA (SP) Limited group financial statements.

3 Debtors

	31 December 2011 £m	31 December 2010 £m
Due within one year:		
Amounts owed by group undertakings - interest receivable	**2.3**	48.0
Group relief receivable	**19.8**	20.1
	22.1	68.1
Due after more than one year:		
Amounts owed by group undertakings - interest bearing	**619.3**	600.0
Total debtors	**641.4**	668.1

Amounts owed by group undertakings - interest bearing represents a loan to Stansted Airport Limited attracting floating rate interest based on a 6 month LIBOR + 6.53% margin as at 31 December 2011 (2010: 6 month LIBOR + 6.53% margin).

4 Creditors: amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Amounts owed to group undertakings - interest payable	**35.7**	60.4

5 Creditors: amounts falling due after more than one year

	31 December 2011 £m	31 December 2010 £m
Amounts owed to group undertakings - interest bearing	**2,122.8**	2,027.7
Debenture payable to BAA (SH) plc	**597.6**	565.8
	2,720.4	2,593.5

Amounts owed to group undertakings – interest bearing represent a £366.8 million (2010: £341.0 million) loan payable to Stansted Airport Limited and a £1,756.0 million (2010: £1,686.7 million) loan payable to Heathrow Airport Limited. All loans have a fixed interest rate of 7.57% (2010: 7.57%).

The debenture payable to BAA (SH) plc is used by BAA (SH) to pay the interest on its bond and subordinated facilities. As at 31 December 2011, the rate on the debenture was 6.91% (2010: 3.12%). The increase in the interest rate is primarily due to the issuance of higher yielding debt to replace the subordinated debt at BAA (SH) plc in the latter part of 2010.

6 Share capital

	£
Authorised	
At 1 January 2011 and 31 December 2011 :	
9,000,000,000 ordinary shares of £0.0019 each	**17,100,000**
Called up, allotted and fully paid	
In issue at 1 January 2011 and 31 December 2011: 5,773,555,178 ordinary shares	
of £0.0019 each	**10,969,755**

7 Share premium reserve

	£m
1 January 2011 and 31 December 2011	**499.0**

8 Profit and loss reserve

	£m
1 January 2011	3,555.6
Loss for the financial year	(109.7)
Dividends paid[1]	(24.8)
31 December 2011	**3,421.1**

[1] As part of the reversal of a £134.8 million loan made by BAA (SH) plc, the Company paid a £24.8 million dividend, with the remaining £110.0 million distributed through partial repayment of the loan.

9 Auditor's remuneration

Auditor's remuneration paid to Deloitte LLP for the performance of the statutory audit amounted to £20,000 (2010: £20,000). Audit fees and non-audit fees for the current financial year were borne by BAA Airports Limited and recharged in accordance with the Shared Services Agreement as described within the Accounting policies of the BAA (SP) Limited group financial statements.

Details of fees for other services are provided in Note 2 of the BAA (SP) Limited group financial statements.

10 Employee information and directors' remuneration

Employee numbers

The Company has no employees (2010: nil).

Directors' remuneration

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

11 Ultimate parent undertaking

The immediate parent undertaking is BAA (SH) plc, a company incorporated in Great Britain and 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 and BAA (SH) plc may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

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

12 Post balance sheet events

In February 2012, the Competition Appeal Tribunal ('CAT') rejected BAA's request that it should review the Competition Commission's July 2011 decision that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision, particularly that BAA should dispose of Stansted airport. BAA is currently considering its position in light of the CAT's decision.

Registered office

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