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

Company registration number: 01990920

Stansted Airport Limited

Contents

Stansted Airport Limited

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Stansted Airport Limited

Business review

Stansted Airport Limited (the ‘Company’) is the owner and operator of Stansted airport (‘Stansted’).

The Company is a subsidiary of the BAA Limited group (the ‘BAA Group’). In addition, the Company’s financial activities are aligned with BAA Limited, and also with BAA (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements.

This Business review is presented under three sections:
Management review – overview of the year ended 31 December 2011, along with the key factors likely to impact the Company 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 Company as at that date.
Risk management – outline of the BAA Group’s approach to risk management, sources of assurance and highlights of the key business risks identified by the BAA Group Executive Committee, which are reviewed, monitored and managed by the Stansted Risk Governance Board.

Management review

Review of 2011

Key features of the year

2011 continued to prove challenging for the Company. The UK economic environment remained difficult with consumer confidence under pressure impacting the outbound leisure market, a key part of Stansted’s traffic.

Stansted celebrated its 20th anniversary of its terminal on 15 March 2011. On a moving annual total basis passenger traffic increased from 1.1 million to 18.3 million over the 20 year period.

The Company continued its investment in the airport’s facilities with plans for increased use of Stansted’s current single runway from 25 million to 35 million passengers annually following the approvals in 2008 by the Secretary of State for Transport and the Secretary of State for Communities and Local Government. £19 million was invested by the Company (excluding the impact of capital creditors) in the year ended 31 December 2011.

Passenger traffic trends

Stansted’s reported traffic declined 2.8% to 18.0 million (2010: 18.6 million). Much of Stansted’s traffic decline in 2011 was in the domestic market, which declined 15.6% principally due to cessation of services to Belfast and Newcastle. Excluding the domestic market, traffic was down 1.5% to 16.6 million (2010: 16.9 million). However, 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.

The current year also 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.

Transforming Stansted

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

Investment in modern airport facilities

Investment was focused on equipping the airfield for Code F aircraft, like the A380, introducing an automated tray return system in central search area, IT upgrade of the airport operating system, rail station platform extension, new airbridges for satellite 2 and phased purchase of fire tenders, snow fleet and security vehicles.

Business review *continued*

Management review *continued*

Review of 2011 *continued*

Service standards

The Company continues to focus on delivering consistently high service standards at Stansted, a key strategic priority. It also expects improving service standards to play a key part in driving cost efficiency.

Departure punctuality improved significantly to 88% (2010: 78%). The strength of this performance is reflected by the fact that Stansted was recognised by Flight Stats 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.

Regulatory 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 the BAA Group since the beginning of 2011. In February 2011, the BAA Group 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, the BAA Group 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 the BAA Group's request. The BAA Group has sought leave to appeal 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, the BAA Group decided to sell Edinburgh airport and has commenced its disposal process.

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.

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 at Stansted declined 6.6% to 1.07 million (2011: 1.15 million) due principally to planned capacity reduction by Ryanair and Easyjet.

Outlook

This year is expected to see a fall in passenger numbers although load factors are expected to remain high. The impact on turnover, Adjusted EBITDA and operating cash flow of reduced passenger numbers is expected to be mitigated by increases in aeronautical tariffs and retail yield. The Company is also focused on ensuring it delivers on the important role in the overall London 2012 Games experience that it will play as an arrival and departure point for athletes and visitors.

Passenger traffic in early 2012 has been consistent with expectations.

Stansted Airport Limited

Financial review

The following financial review provides commentary on the performance of the Company during 2011.

Basis of presentation of financial results
The table below summarises the Company's financial performance in 2011 and includes comparative information for 2010.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Turnover	**234.4**	229.6
Adjusted operating costs[1]	**(147.8)**	(143.4)
Adjusted EBITDA[2]	**86.6**	86.2
Operating (costs)/gain – exceptional	**(7.1)**	15.1
EBITDA	**79.5**	101.3
Depreciation – ordinary	**(40.5)**	(40.3)
Operating profit	**39.0**	61.0

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, the Company's turnover increased 2.1% to £234.4 million (2010: £229.6 million). This reflects increases of 2.5% in aeronautical and 7.5% in other categories of income respectively.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Aeronautical income	**126.8**	123.7	2.5
Retail income	**83.1**	83.1	-
	209.9	206.8	1.5
Other sources of income:			
Operational facilities and utilities income	**9.8**	10.2	(3.9)
Property rental income	**8.2**	8.2	-
Other	**6.5**	4.4	47.7
Total other sources of income	**24.5**	22.8	7.5
Total turnover	**234.4**	229.6	2.1

Aeronautical income
Aeronautical income increased by 2.5% to £126.8 million (2010: £123.7 million) mainly due to a 6.3% tariff increase, effective from April 2011 which more than compensated for a 2.8% downturn in passengers. Aeronautical income per passenger increased by 5.6% to £7.03 (2010: £6.66).

The headline maximum allowable yield at Stansted will increase by 5.9% from 1 April 2012.

Retail income
Stansted's gross retail income was £83.1 million (2010: £83.1 million), a good performance given passenger trends which meant that net retail income ('NRI') per passenger increased 3.4% to £4.15 (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.

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

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 %
Gross retail income (£m)	**83.1**	83.1	-
Less: retail expenditure (£m)	**(8.2)**	(8.5)	(3.5)
Net retail income (£m)	**74.9**	74.6	0.4
Passengers (million)[1]	**18.0**	18.6	(2.8)
Net retail income per passenger[1,2]	**£4.15**	£4.02	3.4

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

Financial review *continued*

Turnover *continued*
Analysis of net retail income

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Car parking	**27.0**	25.9	4.2
Duty and tax-free	**11.6**	12.4	(6.5)
Airside specialist shops	**6.6**	6.7	(1.5)
Bureaux de change	**8.2**	7.7	6.5
Catering	**9.5**	9.6	(1.0)
Landside shops and bookshops	**4.6**	4.7	(2.1)
Advertising	**2.4**	2.1	14.3
Car rental	**2.4**	2.4	-
Other	**2.6**	3.1	(16.1)
Total	**74.9**	74.6	0.4

Other sources of income
Other sources of income (comprising operational facilities and utilities, property rental and other) increased by 7.5% in the year ended 31 December 2011 to £24.5 million (2010: £22.8 million) primarily due to non-airport rents from residential properties purchased in relation to the airport expansion. These started to generate income in November 2010 when the decision not to pursue a second runway at Stansted was announced.

Adjusted operating costs
Adjusted operating costs (excluding depreciation and exceptional items) are presented below as this better reflects the underlying performance of the business. In the year ended 31 December 2011 adjusted operating costs increased by 3.1% to £147.8 million (2010: £143.4 million).

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Change %
Employment costs	**55.5**	50.3	10.3
Maintenance expenditure	**9.9**	10.1	(2.0)
Utility costs	**20.1**	19.6	2.6
Rents and rates	**14.8**	13.0	13.8
General expenses[1]	**29.4**	31.0	(5.2)
Retail expenditure	**8.2**	8.5	(3.5)
Intra-group charges/other	**9.9**	10.9	(9.2)
Total	**147.8**	143.4	3.1

[1] General expenses are net of capitalised costs of £1.6 million (2010: £1.6 million) and include police costs and aerodrome navigation service charges of £17.6 million (2010: £19.9 million).

Employment costs increased 10.3% to £55.5 million (2010: £50.3 million), driven particularly by additional operational costs associated with implementing a teaming structure within security, investment in training, a pay award and performance related pay. Rents and rates increased 13.8% to £14.8 million (2010: £13.0 million) due to increased rates and additional property maintenance costs from residential properties purchased in relation to the airport expansion. General expenses decreased 5.2% to £29.4 million (2010: £31.0 million), mainly due to NATS contract negotiations. Intra-group charges/other declined 9.2% to £9.9 million (2010: £10.9 million) primarily reflecting a greater level of activities performed by the Company that were previously performed and charged to the Company by other parts of the BAA Group.

Adjusted EBITDA
Adjusted EBITDA for the Company in the year ended 31 December 2011 increased 0.5% to £86.6 million (2010: £86.2 million), primarily reflecting the impact of lower passenger traffic and increased tariffs.

Exceptional items
In the year ended 31 December 2011, there was a £7.1 million non-cash pension related charge (2010: £15.1 million credit) included in operating profit. This includes the Company’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 re-allocation of pension balances between entities.

Financial review *continued*

Operating profit
The Company recorded an operating profit for the year ended 31 December 2011 of £39.0 million (2010: £61.0 million). Relative to Adjusted EBITDA, operating profit includes £40.5 million in depreciation (2010: £40.3 million). In addition, it reflects a net £7.1 million exceptional charge included in operating profit (2010: £15.1 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	**86.6**	86.2	0.5
Depreciation	**(40.5)**	(40.3)	0.5
Exceptional items – pensions (charge)/credit	**(7.1)**	15.1	-
Operating profit	**39.0**	61.0	(36.1)

Capital expenditure
Investment at Stansted focused on airfield improvements and refurbishing existing infrastructure. In the year ended 31 December 2011, the cash flow impact of the Company's capital investment programme was £20.9 million (2010: £22.4 million).

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 £4.6 million is attributable to the Company under the BAA Group's Shared Services Agreement. This compares with a total 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. It also reflects a £3.7 million credit due to the change in obligation from RPI to CPI for part of certain defined benefit pension scheme members' future pension entitlements.

The BAA Group has recently concluded the triennial valuation of its defined benefit pension scheme and agreed with scheme's trustees 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 on an actuarial basis for the scheme trustees.

As part of the triennial valuation process, the BAA Group expects to pay £97 million per annum into the scheme from 2012 to 2014, of which £24 million per annum is intended to go towards eliminating the deficit over the next 9 years. This compares with a total of £80 million per annum paid from 2009 to 2011. The Company expects to contribute its share of this amount, estimated at approximately £12 million per annum, to the BAA Airports Limited defined benefit pension scheme in the year ended 31 December 2012.

Regulatory Asset Base ('RAB')
Set out below are RAB figures of the Company at 31 December 2010 and 31 December 2011. RAB figures are utilised in calculating gearing ratios (Regulatory Asset Ratios ('RAR')) under the BAA Group's financing agreements.

	RAB £m
31 December 2010	1,327.3
31 December 2011	1,359.5

During 2011, growth in the RAB for Stansted reflected the addition of approximately £19 million in capital expenditure (excluding the impact of capital creditors) offset by regulatory depreciation of around £45 million. Variation in RAB profiling adjustments reduced the closing RAB by a further £4 million, whilst inflation resulted in a net positive indexation adjustment of approximately £62 million over the year.

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

Risk management

Risk management is a key element of the BAA Group's corporate operations of which the Company forms part. Risk is centrally managed for the BAA Group as part of the corporate services provided under the Shared Services Agreement ('SSA') (refer to the Accounting policies). In addition, the Company has a fully dedicated senior team which implements and manages risk closely following the BAA Group's guidelines. The Executive Committee and Board referred to below relates to the Executive Committee and Board of BAA Limited. Stansted has a local Risk Governance Board, made up of senior management and professional staff in relevant areas such as security, safety and environment, which overseas the implementation of the BAA Group risk activities into the airport operation, and identifies and acts on specific local risks.

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

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

The risk management process is also aimed at defining and implementing clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations.

The operation of the process and the individual registers are subject to periodic review by the BAA Group's Internal Audit function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

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

Safety risks

Health and safety is a core value of the business and the Company operates a safety management system built around risk assessment, inspection, asset stewardship, governance and assurance.

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

Security risks

Security risks are regarded as critical risks to manage throughout the BAA Group. The Company mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Company works closely with government agencies, 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.

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).

Regulatory environment, legal and other reputational risks

Civil Aviation Authority ('CAA') regulation

The Company's operations 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. The current settlement was reached for Stansted during 2009 regarding the five years to 31 March 2014.

Part of the regulatory framework is the Company'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.

Risk management *continued*

Regulatory environment, legal and other reputational risks continued

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 Company, 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 BAA Group breaching these regulations. Refer to the Management review section for details on the current process to modernise the economic regulation of UK airports and the Competition Commission's inquiry into the supply of UK airport services by BAA.

Environmental risks

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

In particular, Stansted has its own dedicated Environment Manager and team, who work closely with local authorities, environmental bodies, airlines and the general public, in areas such as noise, water, air quality and carbon emissions. Stansted's environmental management programme is accredited under ISO14001 and a corporate social responsibility report is published annually covering all areas of environmental performance.

Commercial and financial risks

Operational disruption

There are a number of circumstances that can pose short term risks to the normal operations of Stansted 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 airport. Where possible the Company 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 Company 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. The effect of decisions by or events at airlines that have a major presence at the airports (such as Ryanair, which in 2011 accounted for approximately 65 per cent. of Stansted's aeronautical income) could have a particularly material adverse effect on the Company.

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 BAA Group is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. At Stansted, there are three levels of joint forum, from airport wide to departmental level, in which management and trade unions meet regularly to work together on industrial relations issues. A pay agreement reached in early 2011 established the pay structure for 2011 and 2012 - the next pay negotiations are planned for mid 2012. The Company 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 Company's financial risk management objectives are aligned with BAA Limited, and also with BAA (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements and the level at which financial risks for the Company are managed. The treasury policies of the BAA (SP) Limited group (the 'SP Group') are set out below.

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

Risk management *continued*

Commercial and financial risks continued
Treasury continued
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, foreign exchange contracts and forward/swap transactions to protect against interest rate and currency risks.

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

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

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

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

(d) Funding and liquidity
The SP Group has established an investment grade financing platform for its airports. This platform supports bank term debt, bank revolving credit facilities including a revolving capital expenditure facility, bank liquidity facilities 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 Audit and Assurance Committee, the Board and the Executive Committee.

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

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

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

On behalf of the Board

Nicholas Barton

Nicholas Barton
Director

5 March 2012

Directors' report

The Directors present their Annual report and the audited financial statements for Stansted Airport Limited (the 'Company') for the year ended 31 December 2011.

Principal activities
The Company owns and is the operator of Stansted airport and forms part of the BAA Group. The Company's financial activities are aligned with BAA Limited and also with BAA (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements.

A review of the progress of the Company's business during the year, the key performance indicators, principal business risks and likely future developments are reported in the Business Review on pages 2 to 9.

No significant changes to the activities of the Company are expected in the foreseeable future.

Results and dividends
The loss after taxation for the financial year amounted to £11.0 million (2010: £105.6 million). No dividends were proposed or paid during the year (2010: £nil). The statutory results for the year are set out on page 14.

Directors
The Directors who served at any time during the year are as follows:

Nicholas Barton
José Leo
Fidel López

Employment policies
The Company has no direct employees. The staff are employed by BAA Airports Limited, an intermediate parent company.

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

The Company had 16 days purchases outstanding at 31 December 2011 (2010: 7 days) based on the average daily amount invoiced by suppliers during the year.

Risk management
The Company actively manages all identified corporate risks. Details of the Company's risk management policies can be found on pages 7 to 9 in the Risk management section of the Business review.

Financial risk management objectives and policies
The Company's financial risk management objectives and policies can be found on page 9 of the Risk management section in 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. The BAA Group has sought leave to appeal the CAT's decision.

Directors' report *continued*

Directors' indemnity

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

Auditor

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

Statement of disclosure of information to the Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company'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

N. Barton

Nicholas Barton
Director

5 March 2012

Company registration number: 01990920

Directors' responsibilities statement

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

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

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

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

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

On behalf of the Board

N. Barton

Nicholas Barton
Director

5 March 2012

Independent auditor's report to the members of Stansted Airport Limited

We have audited the financial statements of Stansted Airport Limited for the year ended 31 December 2011 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholders' funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 19. 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.

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

5 March 2012

Stansted Airport Limited

Profit and loss account for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Turnover	*1*	**234.4**	229.6
Operating costs - ordinary	*2*	**(188.3)**	(183.7)
Operating (costs)/gain – exceptional: pensions	*3*	**(7.1)**	15.1
Total operating costs		**(195.4)**	(168.6)
Operating profit		**39.0**	61.0
Impairment of fixed assets - exceptional	*4*	**-**	(119.4)
Net interest payable and similar charges	*5*	**(51.5)**	(40.4)
Loss on ordinary activities before taxation		**(12.5)**	(98.8)
Tax credit/(charge) on loss on ordinary activities	*6*	**1.5**	(6.8)
Loss on ordinary activities after taxation	*14*	**(11.0)**	(105.6)

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

Stansted Airport Limited

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	*14*	**(11.0)**	(105.6)
Unrealised loss on revaluation of investment properties	*7,14*	**(0.8)**	(3.7)
Total recognised losses relating to the year		**(11.8)**	(109.3)

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	*14*	**(11.0)**	(105.6)
Unrealised loss on revaluation of investment properties	*7,14*	**(0.8)**	(3.7)
Capital contribution		**-**	14.7
Tax charge on capital contribution		**-**	(4.0)
Net movement in shareholder's funds		**(11.8)**	(98.6)
Opening shareholder's funds		**965.4**	1,064.0
Closing shareholder's funds		**953.6**	965.4

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

Stansted Airport Limited

Balance sheet as at 31 December 2011

	Note	**31 December 2011 £m**	31 December 2010 £m
Fixed assets			
Tangible fixed assets	*7*	**1,240.1**	1,263.1
Total fixed assets		**1,240.1**	1,263.1
Stocks	*8*	**1.9**	1.9
Debtors: due within one year	*9*	**43.0**	56.1
: due after more than one year	*9*	**366.8**	341.0
Cash at bank and in hand		**6.1**	42.3
Total current assets		**417.8**	441.3
Current liabilities			
Creditors: amounts falling due within one year	*10*	**(39.3)**	(80.0)
Net current assets		**378.5**	361.3
Total assets less current liabilities		**1,618.6**	1,624.4
Creditors: amounts falling due after more than one year	*11*	**(627.9)**	(610.0)
Provisions for liabilities and charges	*12*	**(37.1)**	(49.0)
Net assets		**953.6**	965.4
Capital and reserves			
Called up share capital	*13*	**503.9**	503.9
Revaluation reserve	*14*	**414.9**	415.7
Profit and loss reserve	*14*	**34.8**	45.8
Total shareholder's funds		**953.6**	965.4

The financial statements of Stansted Airport Limited (Company registration number: 01990920) were approved by the Board of Directors and authorised for issue on 5 March 2012. They were signed on its behalf by:

Nicholas Barton
Director

Fidel López
Director

Accounting policies for the year ended 31 December 2011

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

Basis of accounting
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with the Companies Act 2006 and applicable 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. The Company forms part of the BAA (SP) Limited group, which is the smallest group to consolidate these financial statements, and the level at which financial risks are managed for the Company.

Consequently the directors have reviewed the cash flow projections of the BAA (SP) Limited group of which the Company forms part, taking into account:

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

As a result of the review, having made appropriate enquiries of management, the directors have a reasonable expectation that sufficient funds will be available to meet the 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.

Aeronautical income

- Passenger charges based on the number of departing passengers on departure.
- Aircraft landing charges levied according to noise and weight recognised on landing.
- Aircraft parking charges based on a combination of weight and time parked as provided.

Retail income

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

Property and operational facilities

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

Exceptional items
The Company presents certain items as exceptional, on the face of the Profit and loss account. Exceptional items are material items of income and expense that, because of their size or incidence, merit separate presentation to allow an understanding of the Company'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 Notes 3 and 4.

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

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

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 Company. The Company 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.

Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is valued at the reporting date, as determined at the interim and full-year reporting dates by external valuers at least once every five years. 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, 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

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

Tangible fixed assets *continued*

Depreciation continued

Airfields	*Fixed asset lives*
Runway surfaces	10 - 15 years
Runway bases	100 years
Taxiways and aprons	50 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

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

Impairment of assets
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's net realisable value and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the Profit and loss account in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a 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.

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

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

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

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.

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

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

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.

Trade creditors
Trade creditors are non-interest bearing and are stated at cost less any provision for diminution in value and subsequently measured at amortised cost, using the effective interest method.

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

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

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

Restructurings
A restructuring provision is recognised when the Company 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 ongoing 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 Company 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.

Derivative financial instruments
The derivative financial instruments utilised by the Company are interest rate swaps. These are used to manage the interest rate risk of borrowings. Interest receivable on the instruments is calculated using a variable interest rate whereas interest payable is based on a fixed interest rate. The purpose of the swaps is to hedge the risk that arises from the borrowings with variable interest rates.

The derivative financial instruments are hedge accounted for on an accruals basis. The net interest payable or receivable on those derivatives are recorded as net against the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship 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, respectively. The net interest receivable or payable accrual on derivatives is included in current debtors or current creditors on the balance sheet.

Derivative financial instruments novated from other companies within the BAA Group are transferred at fair value prevailing on that date. Premiums payable or receivable are amortised over the term of the financial instruments.

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

Shared Services Agreement ('SSA')

All employees are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Company. BAA Airports Limited is the administrator and sponsor of the related pension plans and grants all employee benefits.

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

Operational staff

BAA Airports Limited charges the Company 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 above-mentioned 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 full costs are recharged to the Company.

Pension costs

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

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

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

Current and deferred taxation

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

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

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

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

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

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

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.

Foreign 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.

Cash flow statement and related party transactions

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

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are related to, or part of, the FGP Topco Limited group. However, the transactions and balances in relation to the provision of services under the SSA between the Company and subsidiaries of the FGP Topco Limited group are disclosed in the notes to the financial statements.

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

In applying the Company's accounting policies, management have made estimates and judgements in a number of key areas. Actual results may, however, differ from the estimates calculated and management believe that the following 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 properties. 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 71% of the investment properties comprise car parks and airside assets at Stansted 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.

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

1 Segment information

The Directors consider the business has only one segment. All of the Company's turnover arises in the United Kingdom and relates to continuing operations. Additional details of the turnover generated by each of the Company's key activities are given below:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Turnover		
Aeronautical income	**126.8**	123.7
Retail income	**83.1**	83.1
Operational facilities and utilities income	**9.8**	10.2
Property rental income	**8.2**	8.2
Other income	**6.5**	4.4
	234.4	229.6

2 Operating costs – ordinary

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Wages and salaries	**45.1**	40.4
Social security	**3.7**	3.1
Pensions	**5.0**	5.0
Other staff related costs	**1.7**	1.4
Share based payments	**-**	0.4
Employment costs[1]	**55.5**	50.3
Maintenance expenditure	**9.9**	10.1
Utility costs	**20.1**	19.6
Rents and rates	**14.8**	13.0
General expenses	**11.9**	11.1
Retail expenditure	**8.2**	8.5
Intra-group charges/other	**9.9**	10.9
Police costs	**6.8**	7.0
Aerodrome navigation service charges	**10.8**	12.9
Depreciation	**40.5**	40.3
Gain on disposal of tangible fixed assets	**(0.1)**	-
	188.3	183.7

[1] Employment costs are recharged from BAA Airports Limited for employee services to the Company. Refer to the SSA 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	**8.6**	8.3
Other operating leases	**0.2**	0.2

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

2 Operating costs – ordinary *continued*

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 £'000	Year ended 31 December 2010 £'000
Fees payable to the Company's auditor for the audit for the Company's annual accounts		
Audit of the Company pursuant to legislation	**24.0**	41.0
Total audit fees	**24.0**	41.0
Non audit fees payable to the Company's auditor and its associates for other services to the Company		
Other services pursuant to legislation	**3.2**	-
Tax services	**8.0**	-
Information technology services - pre appointment[1]	**0.5**	-
Corporate finance services[2]	**18.2**	-
Other services	**3.7**	-
Total non-audit fees	**33.6**	-
Total fees	**57.6**	41.0

[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 BAA Group.

Employee information

The Company has no employees. Staff engaged in the operation of the Stansted airport ('Stansted') are employed by BAA Airports Limited which bears the related staff costs and recharges all such costs directly to the Company as a part of the SSA as described in the Accounting policies. The average number of employees of BAA Airports Limited engaged in Stansted during the year was 1,138 (2010: 1,121). The number of employees does not include headcount related to central support functions for the Company which are rendered by BAA Airports Limited and charged as intra-group charges in accordance with the SSA.

Directors' remuneration

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Directors' remuneration and highest paid director's remuneration		
Aggregate remuneration[1,2]	**312**	237
Value of Company pension contributions to defined benefit scheme	**32**	33
Termination benefits	**-**	265
	344	535
Defined benefit accrued pension	**115**	19

[1] For the year ended 31 December 2011 aggregate emoluments includes accrued salaries, allowances, bonuses and amounts payable under Long Term Incentive Plans ('LTIP').

[2] £70,723 of bonus was paid in cash in 2011 (2010: £nil).

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

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

2 Operating costs – ordinary *continued*

Directors' remuneration continued

The Directors participate in various Long Term Incentive Performance Cash Plans operated by BAA Airports Limited. In respect of the Plans, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA and Return on Equity and other operational targets over a three year period. For the year ended 2011, the Directors' remuneration includes £21,000 payable in 2012 (2010: £nil) in respect of the 2009 Plan after certain targets were met over the three year period from 2009 to 2011. As the financial performance in respect of the 2010 and 2011 Plans is uncertain at this stage, no value in relation to these awards is included above.

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Number of directors who:		
are members of a defined benefit pension scheme	**1**	1

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

3 Operating (costs)/gain – exceptional

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Pension (charge)/credit	**(7.1)**	15.1

During 2011 there was a net exceptional pension charge of £7.1 million (2010: £15.1 million credit). This includes the Company's share of the movement in the BAA Airports Limited defined benefit pension scheme, the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits as well as a re-allocation of pension balances between entities.

4 Non-operating costs - exceptional

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Exceptional impairment of fixed assets	**-**	119.4

As a result of the change in UK government and its policy towards runway developments, the BAA Group announced on 24 May 2010 that it was withdrawing its planning permission applications for a second runway at Stansted. As a result, in the year ended 31 December 2010 there was a total impairment charge of £119.4 million made of which £83.0 million related to the write-off of planning application costs and £36.4 million to the write down in the value of domestic properties and land purchased by the Company falling within the planned expanded airport boundary prior to their transfer to investment properties. This charge was deductible for tax purposes. This accounting treatment had no impact on these costs being included in the airport's regulatory asset base and had no cash impact.

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

5 Net interest payable and similar charges

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Interest receivable			
Interest receivable from other group undertakings[1]		**27.0**	24.9
		27.0	24.9
Interest payable			
Interest payable to other group undertakings[2]		**(48.7)**	(45.4)
Facility fees and other charges		**(2.2)**	(2.7)
Net interest payable on derivative financial instruments		**(13.7)**	(17.7)
		(64.6)	(65.8)
Fair value loss on financial instruments[3]		**(14.1)**	0.2
Interest capitalised[4]	*7*	**0.2**	0.3
Net interest payable and similar charges		**(51.5)**	(40.4)

[1] These amounts relate mainly to interest accrued on balances due from BAA (SP) Limited (Note 9).
[2] These amounts relate to interest due on the loan from BAA (SP) Limited, granted in December 2009 (Note 11).
[3] The amount in 2011 includes costs incurred in relation to the cancellation of certain derivatives during the year.
[4] Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 2.27% (2010: 2.33%) to expenditure incurred on such assets.

6 Tax on loss on ordinary activities

	Note	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Current tax			
Group relief payable		**0.8**	1.9
Adjustments in respect of prior periods		**3.1**	-
Total current tax charge		**3.9**	1.9
Deferred tax			
Origination and reversal of timing differences		**(0.4)**	5.9
Adjustments in respect of prior periods		**(2.1)**	-
Change in tax rate		**(2.9)**	(1.0)
Total deferred tax	*12*	**(5.4)**	4.9
Tax (credit)/charge on loss on ordinary activities		**(1.5)**	6.8

Reconciliation of tax charge

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Loss on ordinary activities before tax	**(12.5)**	(98.8)
Tax on loss on ordinary activities at 26.5% (2010: 28%)	**(3.3)**	(27.7)
Effect of:		
Permanent differences	**3.7**	35.7
Capital allowances for the year in excess of depreciation	**(0.1)**	(0.1)
Capitalised interest	**(0.1)**	(0.1)
Other short term timing differences	**0.6**	(5.9)
Adjustments to tax charge in respect of prior periods	**3.1**	-
Current tax charge for the year	**3.9**	1.9

It was substantively enacted at the reporting date that 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 12, there are no items which would materially affect the future tax charge.

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

7 Tangible fixed assets

	Note	Investment properties £m	Land held for development £m	Terminal complexes £m	Airfields £m	Other land and buildings £m	Plant equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost or valuation									
1 January 2011		544.5	45.7	775.4	190.0	14.8	59.3	48.0	1,677.7
Additions at cost		0.2	-	-	-	-	-	19.0	19.2
Transfers to completed assets		0.3	-	19.9	1.0	1.2	2.1	(24.5)	-
Interest capitalised	*5*	-	-	-	-	-	-	0.2	0.2
Disposals		(1.1)	-	-	-	-	-	-	(1.1)
Revaluation	*14*	(0.8)	-	-	-	-	-	-	(0.8)
31 December 2011		**543.1**	**45.7**	**795.3**	**191.0**	**16.0**	**61.4**	**42.7**	**1,695.2**
Depreciation									
1 January 2011		-	-	(319.7)	(63.8)	(2.1)	(29.0)	-	(414.6)
Charge for the year		-	-	(26.9)	(6.8)	(0.6)	(6.2)	-	(40.5)
31 December 2011		**-**	-	**(346.6)**	**(70.6)**	**(2.7)**	**(35.2)**	**-**	**(455.1)**
Net book value 31 December 2011		**543.1**	**45.7**	**448.7**	**120.4**	**13.3**	**26.2**	**42.7**	**1,240.1**
Net book value 31 December 2010		544.5	45.7	455.7	126.2	12.7	30.3	48.0	1,263.1

7 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 £515.2 million (2010: £502.7 million) and by Strutt & Parker, Chartered Surveyors at £73.6 million (2010: £87.5 million), resulting in a total valuation of £588.8 million (2010: £590.2 million). Strutt & Parker were responsible solely for the valuation of residential properties. 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 deficit of £0.8 million has been recognised in the revaluation reserve.

Remaining terminal complexes, airfield infrastructure, other land and buildings, plant and equipment, and other assets, have been shown at historical cost.

Capitalised interest
Included in the cost of assets after depreciation are interest costs of £59.5 million (2010: £61.4 million). £0.2 million (2010: £0.3 million) has been capitalised in the year at a capitalisation rate of 2.27% (2010: 2.33%) based on a weighted average cost of borrowings.

A tax deduction of £0.2 million (2010: £0.3 million) for capitalised interest was taken in the year. 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.

Historical cost
The historical cost of investment properties and land held for development at 31 December 2011 was £173.9 million (2010: £174.5 million).

Other land and buildings
Other land and buildings are all freehold.

Leased assets
The Company had assets rented to third parties under operating leases as follows:

	31 December 2011 £m	31 December 2010 £m
Cost or valuation	**601.9**	557.9
Accumulated depreciation	**(5.4)**	(4.9)
	596.5	553.0

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

8 Stocks

	31 December 2011 £m	31 December 2010 £m
Raw materials and consumables	**1.9**	1.9

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 accounts.

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

9 Debtors

	31 December 2011 £m	31 December 2010 £m
Due within one year:		
Trade debtors	**24.7**	24.6
Amounts owed by group undertakings - interest free[1]	**-**	2.8
Amounts owed by group undertakings - pensions[2]	**5.5**	11.7
Other debtors	**0.1**	0.7
Prepayments	**2.4**	4.1
Interest receivable from group undertakings	**10.3**	9.6
Group relief receivable	**-**	2.6
Total debtors due within one year	**43.0**	56.1
Due after more than one year:		
Amounts owed by group undertakings – interest bearing[3]	**366.8**	341.0
Total debtors	**409.8**	397.1

[1] Amounts owed by group undertakings – interest free largely related to external payments received by BAA Airports Limited under the SSA on behalf of the Company that will be remitted in due course.
[2] Amounts owed by group undertakings – pensions represents the Company's share of the surplus in the BAA Airports Limited defined benefit pension scheme allocated to the Company on the basis of pensionable salaries of those employees being in the defined benefit pension scheme. See Note 12 for further details.
[3] Amounts owed by group undertakings – interest bearing represents a loan receivable from BAA (SP) Limited. Interest is charged at a fixed interest rate of 7.57% per annum.

10 Creditors: amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Trade creditors[1]	**15.1**	10.4
Capital creditors	**4.7**	7.5
Amounts owed to group undertakings - interest free[2]	**0.3**	0.3
Corporation tax payable	**2.5**	1.4
Group relief payable	**2.2**	-
Other creditors	**2.4**	0.2
Other taxes and social security costs	**1.2**	1.0
Deferred income	**2.7**	2.8
Interest payable to group undertakings	**2.6**	48.2
Net interest payable on derivative financial instruments	**5.6**	8.2
	39.3	80.0

[1] Trade creditors are non-interest bearing and are generally on 30 day terms.
[2] Amounts owed to group undertakings – interest free largely relate to external payments made by BAA Airports Limited under the SSA on behalf of the Company.

11 Creditors: amounts falling due after more than one year

	31 December 2011 £m	31 December 2010 £m
Amounts owed to group undertakings - interest bearing[1]	**619.3**	600.0
Derivative financial instruments	**3.1**	3.9
Deferred income	**5.5**	6.1
	627.9	610.0

[1] Amounts owed to group undertakings – interest bearing represents a loan from BAA (SP) Limited, attracting floating rate interest based on 6 month LIBOR + margin. At 31 December 2011, the all-in pay rate on the loan was 7.57%.

The Company together with Heathrow Airport Limited ('Heathrow') had £1,355.0 million undrawn committed borrowing facilities available at 31 December 2011 in respect of which all conditions precedent had been met at that date.

In addition, as at 31 December 2011, there was a gross overdraft limit between the Company and Heathrow up to a maximum gross balance of £75.0 million.

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

11 Creditors: amounts falling due after more than one year *continued*

Derivatives not included at fair value

The Company enters into derivative transactions, principally interest rate swaps and foreign exchange contracts. The purpose of these transactions is to manage interest rate and currency risks arising from the Company's operations and sources of finance.

As at 31 December 2011, the Company had interest rate swap contracts with notional values totalling £321.3 million (2010: £464.5 million). The swaps have fixed interest payments at an average rate of 4.75% and floating interest receipts based on 6-month LIBOR. At that date, these financial instruments had a mark-to-market liability of £103.5 million (2010: £62.8 million). The amounts recognised on the balance sheet in relation to these financial instruments represent accrued interest and the unamortised portion of their fair value on the date of novation to the Company. These are included in 'Net interest payable on derivative financial instruments' (Note 10 'Creditors falling due within one year') and 'Derivative financial instruments' above, respectively.

12 Provisions for liabilities and charges

	Deferred tax (a) £m	Reorganisation costs (b) £m	Pension costs (c) £m	Other (d) £m	Total £m
1 January 2011	38.6	0.9	8.7	0.8	49.0
Utilised	-	(0.8)	-	(0.7)	(1.5)
Transfer in	-	-	-	0.1	0.1
Charged to profit and loss account	-	-	0.9	-	0.9
Released to profit and loss account	(5.4)	-	(6.0)	-	(11.4)
31 December 2011	**33.2**	**0.1**	**3.6**	**0.2**	**37.1**

(a) Deferred tax

Analysis of the deferred tax balance is as follows:

	31 December 2011 £m	31 December 2010 £m
Excess of capital allowances over depreciation	**32.2**	36.8
Other timing differences	**1.0**	1.8
	33.2	38.6

	Unprovided 31 December 2011 £m	Unprovided 31 December 2010 £m
Tax on chargeable gains if investment properties were sold at their current valuations	**96.3**	97.0
Tax on rolled-over gains if replacement assets were sold at their current valuations	**3.8**	4.1
	100.1	101.1

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 £100.1 million (2010: £101.1 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 rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. As a result the Company's deferred tax balances, which were previously provided at 27%, have been re-measured at the rate of 25%. This has resulted in a reduction in the net deferred tax liability of £2.9 million, with £2.9 million credited to the profit and loss account.

(b) Reorganisation costs

The costs associated with the Company's reorganisation programme are for severance and pension payments only.

12 Provisions for liability and charges *continued*

(c) Pension costs

The £3.6 million closing provision (2010: £8.7 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.

(d) Other

This provision is largely due to onerous contracts relating to energy purchases. All amounts are expected to be utilised within four years.

13 Share capital

	£m
Authorised	
1 January and 31 December 2011	
520,000,000 ordinary shares of £1 each	**520.0**
Called up, allotted and fully paid	
1 January and 31 December 2011	
503,900,002 ordinary shares of £1 each	**503.9**

14 Reserves

	Revaluation reserve £m	**Profit and loss reserve £m**	**Total £m**
1 January 2010	419.4	140.7	560.1
Loss for the financial year	-	(105.6)	(105.6)
Unrealised loss on revaluation of investment properties	(3.7)	-	(3.7)
Capital contribution	-	14.7	14.7
Tax charge on capital contribution	-	(4.0)	(4.0)
1 January 2011	415.7	45.8	461.5
Loss for the financial year	-	(11.0)	(11.0)
Unrealised loss on revaluation of investment properties	(0.8)	-	(0.8)
31 December 2011	**414.9**	**34.8**	**449.7**

The capital contribution in 2010 relates to the reduction in the share of the deficit of BAA Airports Limited's defined benefit pension scheme following the commutation payment made by BAA (AH) Limited into the scheme after the disposal of Gatwick airport.

15 Commitments

Commitments for capital expenditure

Contracted capital expenditure commitments amount to £5.5 million (2010: £2.7 million).

Commitments under operating leases

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

	31 December 2011	31 December 2010
	£m	£m
Leases which expire:		
over five years	**9.9**	9.2

Commitments under contractual obligations

The Company has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Company until March 2013. Such commitments are for the normal purchase, sale or usage 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 £4.8 million (2010: £13.1 million).

Other commitments

The BAA 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 Stansted, there were schemes in operation as a result of the potential development of a new runway 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. Properties purchased under these schemes are included within investment properties at a value of £73.6 million as at 31 December 2011 (2010: £74.4 million).

The Company is also required by the government to offer noise mitigation measures relating to existing airport activities. Based on the Company's evaluation, payments under current noise schemes are estimated at £0.4 million 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 BAA Group publically consulted on proposed amendments in 2011. During the course of 2012 the BAA 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 BAA Group's airports. The regime committed the BAA Group to introducing a new domestic noise insulation scheme at Stansted to address the impact of night flights on local communities. 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 BAA Group is unable to quantify potential obligations under a future night flights regime.

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 on an actuarial basis for the scheme trustees.

As part of the triennial valuation process, the BAA Group expects to pay £97 million per annum into the scheme from 2012 to 2014. This compares with a total 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 calculated to eliminate the deficit over a period of 9 years. The Company expects to contribute its share of this amount, estimated at approximately £12 million per annum, to the BAA Airports Limited defined benefit pension scheme in the year ended 31 December 2012.

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

16 Contingent liabilities

The Company, together with Heathrow, Heathrow Express Operating Company 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.

The Company, together with Heathrow 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.

BAA Pension Trust Company Limited has a right to receive up to £300.0 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.

The Company together with Heathrow has a jointly issued letter of credit amounting to £205.0 million under the Borrower Liquidity Facility Agreement, to cover interest payable to Supported Lenders.

In addition, the Company is a joint guarantor in respect of principal and accrued interest in relation to the borrowings of Heathrow from BAA Funding Limited under the Initial Borrower Loan Agreement ('IBLA') dated 18 August 2008. As at 31 December 2011 the carrying amount of the borrowings under the IBLA was £8,028.1 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 Company. 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 Company 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.

17 Ultimate parent undertaking

The immediate parent undertaking of the Company is BAA (AH) Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group in the UK to consolidate these financial statements. The shareholders of FGP Topco Limited are Hubco Netherlands B.V. (49.99%) (an indirect subsidiary of Ferrovial S.A., Spain), Britannia Airport Partners L.P. (26.48%) (a Caisse de dépôt et placement du Québec-controlled vehicle), Baker Street Investment Pte Ltd (17.65%) (an investment vehicle of the Government of Singapore Investment Corporation) and Alinda Airports UK L.P. and Alinda Airports L.P. (5.88%) (investment vehicles managed by Alinda Capital Partners).

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

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

18 Post balance sheet events

In February 2012, the CAT rejected BAA Group's request that it should review the CC'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. The BAA Group has sought leave to appeal the CAT's decision.

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

19 Summary cash flow statement

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Operating profit	**39.0**	61.0
Adjustments for:		
Depreciation	**40.5**	40.3
Gain on disposal of fixed assets	**(0.1)**	-
Working capital changes:		
Decrease in stock and debtors	**2.2**	3.2
Increase/(decrease) in creditors	**6.5**	(2.4)
Decrease in provisions	**(1.4)**	(6.9)
Difference between pension charge and cash contributions	**(6.0)**	(5.6)
Exceptional pension charge/(credit)	**7.1**	(15.1)
Exceptional working capital settlement of intercompany balance[1]	**2.8**	-
Net cash inflow from operating activities	**90.6**	74.5
Net interest paid	**(62.0)**	(16.4)
Taxation - group relief received/(paid)	**2.0**	(5.5)
Net capital expenditure	**(20.9)**	(22.4)
Net cash inflow before management of liquid resources and financing	**9.7**	30.2
Financing		
Cancellation of derivatives	**(14.8)**	-
Decrease in amounts owed to group undertakings	**(31.1)**	-
(Decrease)/increase in cash	**(36.2)**	30.2

[1] Exceptional working capital settlement of intercompany balance reflects a one off £2.8 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 Company being received faster.

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