BAA (SH) plc

Special purpose consolidated financial statements for the six months ended 30 June 2011

Unaudited

Company registration number: 06458635

BAA (SH) plc

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Directors' report

The unaudited Special purpose consolidated financial statements of the BAA (SH) plc group (the 'Group'), comprising the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity and Consolidated summary statement of cash flows have been prepared in order to comply with the requirements contained within the BAA Limited group's (the 'BAA Group') various borrowing facilities' undertakings for half year reporting. They are considered to fairly present the financial condition and operations of the Group as at 30 June 2011 and for the six months then ended. The financial statements have been prepared applying consistent accounting principles to those applied for the year ended 31 December 2010.

On behalf of the Board

José Leo
Director

27 July 2011

Company registration number: 06458635

BAA (SH) plc

Consolidated income statement for the six months ended 30 June 2011

	Unaudited Six months ended 30 June 2011 £m	Unaudited Six months ended 30 June 2010 £m
Continuing operations		
Revenue	**1,074**	958
Operating costs	**(788)**	(742)
Other operating costs		
Fair value gain/(loss) on investment properties	**19**	(3)
Operating profit	**305**	213
Analysed as:		
Operating profit before exceptional items	**293**	159
Exceptional items[1]	**12**	54
Exceptional impairment of property, plant and equipment[2]	**-**	(104)
Financing		
Finance income	**106**	76
Finance costs	**(502)**	(421)
Fair value loss on financial instruments	**(144)**	(77)
	(540)	(422)
Loss before tax	**(235)**	(313)
Taxation credit[3]	**188**	25
Loss for the period from continuing operations	**(47)**	(288)
Net result/profit from discontinued operations	**-**	15
Consolidated loss for the period	**(47)**	(273)

[1] Exceptional items
Under the Shared Services Agreement ('SSA') the current period service cost for the BAA Group pension schemes are recharged to the Group's airports and Heathrow Express Operating Company Limited ('HEX') on the basis of their pensionable salaries. This charge is included within Operating costs. Cash contributions are made directly by the Group's airports and HEX to the BAA Group defined benefit pension schemes on behalf of BAA Airports Limited.

The Group's airports and HEX have had a legal obligation since August 2008 to fund their share of the BAA Group defined benefit pension scheme deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits pension related liabilities under the SSA. These provisions are based on the relevant share of the actuarial deficit and allocated on the basis of pensionable salaries. Movements in these provisions are recorded as exceptional items due to their unusual nature and will only be settled when the cash outflows are requested by BAA Airports Limited.

For the six months ended 30 June 2011 an exceptional pension credit of £23 million (six months ended 30 June 2010: £76 million) was recognised in relation to exceptional pension costs incurred in respect of the push down of the Group's share of the reduction in the deficit on the BAA Group defined benefit pension scheme in accordance with the SSA.

The accelerated depreciation and impairment charge of £11 million (2010: £19 million – accelerated depreciation) in 2011 was in relation to an impairment charge on the Airtrack rail project which the Group has decided not to pursue. In 2010 the accelerated depreciation charge was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. No depreciation has been treated as exceptional since the second quarter of 2010 at which time Terminal 1's remaining useful life was reassessed and extended. In addition, during 2010 £3 million of reorganisation costs were incurred related primarily to various restructuring processes designed to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

[2] Exceptional impairment of property plant and equipment
Non-operating exceptional items of £104 million in the six months ended 30 June 2010 were in relation to the write-off of planning application costs for Stansted Generation 2 and a third runway at Heathrow, following the change in UK government and its policy toward runway developments.

[3] Taxation credit
The tax credit for the six months ended 30 June 2011 results in an effective tax rate for the period of 80.0% (30 June 2010: 8.0%). This reflects a tax credit arising on ordinary activities of £119 million (30 June 2010: £25 million) and a tax credit of £69 million (30 June 2010: £nil) due to the further reduction in the rate of corporation tax from 1 April 2011.

The tax credit for the six months ended 30 June 2011 on ordinary activities results in an effective tax rate of 50.6%. This credit is calculated by applying the forecast estimated average annual effective tax rate for each entity to the results for the six months ended 30 June 2011. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 26.5% primarily due to the impact of phasing results through the year. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary as those proportions change.

On 23 March 2011, the Government announced its intention to introduce legislation to reduce the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. The reduction in the rate to 26% was substantively enacted on 29 March 2011 and as a result the Group's deferred tax balances, that were previously provided at 27%, were re-measured at the rate of 26%. This has resulted in a reduction in the net deferred tax liability of £70 million, with £69 million credited to the profit and loss account and £1 million credited to reserves. The reduction in the rate to 25% was enacted in the Finance Act 2011 on 19 July 2011. As a result, the Group's deferred tax balances, which are currently provided at 26% will be re-measured at the rate of 25% for the year ended 31 December 2011. Had this change been enacted at 30 June 2011, this would have further reduced the net deferred tax liability by £70 million, with £69 million credited to the profit and loss account and £1 million credited to reserves.

BAA (SH) plc

Consolidated statement of comprehensive income for the six months ended 30 June 2011

	Unaudited Six months ended 30 June 2011 £m	Unaudited Six months ended 30 June 2010 £m
Loss for the period	**(47)**	(273)
Other comprehensive income:		
Cash flow hedges		
Gain/(loss) taken to equity	**20**	(214)
Transferred to income statement	**(41)**	121
Change in tax rate	**1**	-
Other comprehensive loss for the period net of tax	**(20)**	(93)
Total comprehensive loss for the period	**(67)**	(366)

Items in the statement above are disclosed net of tax.

BAA (SH) plc

Consolidated statement of financial position as at 30 June 2011

	Unaudited 30 June 2011 £m	Audited 31 December 2010 £m
Assets		
Non-current assets		
Property, plant and equipment	**10,208**	10,013
Investment properties	**2,251**	2,218
Intangible assets	**50**	51
Derivative financial instruments	**390**	552
Trade and other receivables	**16**	28
	12,915	12,862
Current assets		
Inventories	**7**	5
Trade and other receivables	**404**	361
Derivative financial instruments	**218**	-
Cash and cash equivalents	**51**	67
	680	433
Total assets	**13,595**	13,295
Liabilities		
Non-current liabilities		
Borrowings	**(9,679)**	(10,359)
Derivative financial instruments	**(813)**	(573)
Deferred income tax liabilities	**(1,684)**	(1,880)
Provisions	**(3)**	(5)
Trade and other payables	**(2)**	(3)
	(12,181)	(12,820)
Current liabilities		
Borrowings	**(1,121)**	(198)
Provisions	**(51)**	(81)
Current income tax liabilities	**(21)**	(36)
Trade and other payables	**(478)**	(350)
	(1,671)	(665)
Total liabilities	**(13,852)**	(13,485)
Net liabilities	**(257)**	(190)
Equity		
Capital and reserves		
Share capital	**3,109**	3,109
Revaluation reserve	**365**	365
Merger reserve	**(1,771)**	(1,771)
Fair value reserve	**(198)**	(175)
Retained earnings	**(1,762)**	(1,718)
Total equity	**(257)**	(190)

The Special purpose consolidated financial statements of BAA (SH) plc (Company registration number: 06458635) were approved by the Board of Directors and authorised for issue on 27 July 2011. They were signed on its behalf by:

José Leo
Director

Frederick Maroudas
Director

BAA (SH) plc

Consolidated statement of changes in equity for the six months ended 30 June 2011

	Attributable to owners of the Company					
	Share capital £m	Revaluation reserve £m	Merger reserve £m	Fair value reserve £m	Retained earnings £m	Total equity £m
1 January 2010	2,792	365	(1,771)	(108)	(1,476)	(198)
Comprehensive income:						
Loss for the period	-	-	-	-	(273)	(273)
Other comprehensive income:						
Loss on re-measurement of the following:						
Cash flow hedges net of tax	-	-	-	(93)	-	(93)
Total comprehensive income	-	-	-	(93)	(273)	(366)
Transactions with owners/fellow subsidiaries:						
Proceeds from shares issued	217	-	-	-	-	217
Capital distribution	-	-	-	-	(16)	(16)
Tax on capital contribution	-	-	-	-	(25)	(25)
Total transactions with owners	217	-	-	-	(41)	176
30 June 2010	3,009	365	(1,771)	(201)	(1,790)	(388)
1 January 2011	3,109	365	(1,771)	(175)	(1,718)	(190)
Comprehensive income:						
Loss for the period	**-**	**-**	**-**	**-**	**(47)**	**(47)**
Other comprehensive income:						
Loss on re-measurement of the following:						
Cash flow hedges net of tax	**-**	**-**	**-**	**(21)**	**-**	**(21)**
Change in tax rate	**-**	**-**	**-**	**(2)**	**3**	**1**
Total comprehensive income	**-**	**-**	**-**	**(23)**	**(44)**	**(67)**
30 June 2011	**3,109**	**365**	**(1,771)**	**(198)**	**(1,762)**	**(257)**

BAA (SH) plc

Consolidated summary statement of cash flows for the six months ended 30 June 2011

	Unaudited Six months ended 30 June 2011 £m	Restated[1] Unaudited Six months ended 30 June 2010 £m
Operating activities		
Operating profit	**305**	213
Adjustments for:		
Depreciation (including amortisation, exceptional depreciation and impairment)	**247**	260
Fair value (gain)/loss on investment properties	**(19)**	3
Working capital changes:		
(Increase)/decrease in inventories and trade and other receivables	**(26)**	9
Increase in trade and other payables	**10**	13
Decrease in provisions	**(6)**	(9)
Difference between pension charge and cash contributions	**(18)**	(13)
Exceptional pension credit	**(23)**	(77)
Cash generated from continuing operations	**470**	399
Taxation – group relief (paid)/received	**(16)**	1
Net cash from operating activities	**454**	400
Cash flows from investing activities		
Net capital expenditure	**(431)**	(387)
Investing activities of discontinued operations and disposal proceeds	**(4)**	(122)
Net cash used in investing activities	**(435)**	(509)
Cash flows from financing activities		
Proceeds from issuance of bonds	**1,508**	-
(Repayment)/drawdown of capital expenditure facility	**(250)**	75
Repayment of other facilities and other items	**(1,169)**	(118)
Drawdown of amount owed to parent company	**110**	-
Settlement of accretion on index-linked swaps	**(15)**	-
Cancellation of derivatives	**(53)**	(74)
Prepayment of derivative interest	**-**	(37)
Restricted cash	**-**	143
Issuance of ordinary share capital	**-**	217
Net interest paid	**(166)**	(179)
Net cash used in financing activities[2]	**(35)**	27
Net decrease in cash and cash equivalents	**(16)**	(82)

[1] The presentation of certain balances for the six months ended 30 June 2010 has been restated to be consistent with current period disclosures.

[2] Net cash used in financing activities
In the six months ended 30 June 2011, the Group received proceeds of £1,508 million from three bond issues, comprising a US$1 billion issuance generating proceeds of £616 million, a £750 million thirty-year Class A sterling bond issue generating proceeds of £738 million and a re-opening of the existing index-linked sterling bond with scheduled redemption date in December 2039 generating proceeds of £154 million. This inflow enabled the repayment of a significant proportion of the refinancing facility, reduced drawings under the Group's revolving capital expenditure facility and cancelled part of its interest rate swap portfolio.