

BAA (SP) Limited

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

Unaudited

BAA (SP) Limited

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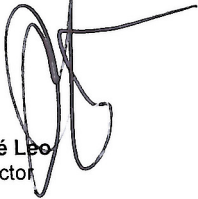
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BAA (SP) Limited

Directors' report

The unaudited Special purpose consolidated financial statements of the BAA (SP) Limited group (the 'Group'), comprising the Consolidated profit and loss account, Consolidated statement of total recognised gains and losses, Consolidated reconciliation of movements in shareholder's funds, Consolidated balance sheet and Consolidated summary cash flow statement 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: 06458621

BAA (SP) Limited

Consolidated profit and loss account for the six months ended 30 June 2011

	Unaudited Six months ended 30 June 2011 £m	Unaudited Six months ended 30 June 2010 £m
Turnover – continuing operations	1,073.9	957.6
Operating costs – ordinary	(797.8)	(794.7)
Operating gain – exceptional: pensions ¹	22.6	76.7
Operating costs – exceptional: other ²	(11.0)	(22.3)
Total operating costs	(786.2)	(740.3)
Operating profit – continuing operations	287.7	217.3
Impairment of tangible fixed assets – exceptional ³	-	(104.4)
Gain on disposal of Gatwick airport – discontinued operations	-	14.6
Interest receivable and similar income	106.4	76.1
Interest payable and similar charges	(499.4)	(406.4)
Fair value loss on financial instruments	(143.9)	(76.9)
Net interest payable and similar charges	(536.9)	(407.2)
Loss on ordinary activities before taxation	(249.2)	(279.7)
Tax credit on loss on ordinary activities ⁴	118.8	19.5
Loss on ordinary activities after taxation	(130.4)	(260.2)

¹ Operating costs – exceptional: pensions

Under the Shared Services Agreement ('SSA') the current period service cost for the BAA Group's pension schemes are recharged to the Group's airports and Heathrow Express Operating Company Limited ('HEX') on the basis of their pensionable salaries. This charge is included within Operating costs – ordinary. Cash contributions are made directly by the Group's airports 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 £22.6 million (six months ended 30 June 2010: £76.7 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.

² Operating costs – exceptional: other

The accelerated depreciation and impairment charge of £11.0 million (2010: £18.7 million – accelerated depreciation) in 2011 was in relation to an impairment charge on the Airtrack rail project which the Group has decided not to pursue. In 2010 the accelerated depreciation charge was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. 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 £3.6m 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.

³ Non-operating exceptional items of £104.4 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.

⁴ Tax credit on loss on ordinary activities

The tax credit for the six months ended 30 June 2011 results in an effective tax rate for the period of 47.7% (30 June 2010: 7.0%). This reflects a tax credit arising on ordinary activities of £106.8 million (30 June 2010: £19.5 million) and a tax credit of £12.0 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 42.9%. 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 and permanent differences arising from non-qualifying depreciation. 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.

The tax credit for the six months ended 30 June 2010 on ordinary activities resulted in an effective tax rate of 7.0%. The effective tax rate for the period differed from the UK statutory rate of corporation tax of 28% due to permanent differences arising from non-qualifying depreciation and runway impairment and non taxable proceeds from the disposal of Gatwick Airport Limited, together with the impact of phasing results through the year.

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 £10.0 million, with £12.0 million credited to the profit and loss account and £2.0 million charged 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 £10.0 million, with £12.0 million credited to the profit and loss account and £2.0 million charged to reserves.

There are no material differences between the loss on ordinary activities before taxation and the loss on ordinary activities after taxation for the period and their historical cost equivalents.

BAA (SP) Limited

Consolidated statement of total recognised gains and losses 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 financial period	(130.4)	(260.2)
Unrealised gain/(loss) on revaluation of investment properties	16.6	(2.6)
Losses on cash flow hedges taken directly to equity	(28.2)	(133.6)
Deferred tax credit arising on cash flow hedges taken directly to equity	5.4	37.4
	(6.2)	(98.8)
Total recognised losses for the period	(136.6)	(359.0)

Consolidated reconciliation of movements in shareholder's funds 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 financial period	(130.4)	(260.2)
Other recognised losses relating to the period (net)	(6.2)	(98.8)
Proceeds of ordinary shares issued for cash	-	0.4
Premium on ordinary shares issued	-	217.0
Capital distribution	-	(16.1)
Tax charge on capital contribution	-	(24.8)
Net movement in shareholder's funds	(136.6)	(182.5)
Opening shareholder's funds	635.9	826.0
Closing shareholder's funds	499.3	643.5

BAA (SP) Limited

Consolidated balance sheet as at 30 June 2011

	Unaudited 30 June 2011 £m	Audited 31 December 2010 £m
Fixed assets		
Tangible fixed assets	11,905.8	11,678.2
Financial assets – derivative financial instruments	389.9	551.7
Total fixed assets	12,295.7	12,229.9
Current assets		
Stocks	6.7	5.5
Debtors: amounts falling due within one year	400.2	357.7
Financial assets – derivative financial instruments	218.0	0.1
Current asset investments	47.7	41.0
Cash at bank and in hand	2.6	6.1
Total current assets	675.2	410.4
Current liabilities		
Creditors: amounts falling due within one year	(1,513.9)	(586.2)
Net current liabilities	(838.7)	(175.8)
Total assets less current liabilities	11,457.0	12,054.1
Creditors: amounts falling due after more than one year	(10,755.5)	(11,060.1)
Deferred tax	(148.5)	(271.1)
Provisions for liabilities and charges – pensions	(30.7)	(53.3)
Provisions for liabilities and charges – other	(23.0)	(33.7)
Net assets	499.3	635.9
Capital and reserves		
Called up share capital	11.0	11.0
Share premium reserve	499.0	499.0
Revaluation reserve	1,487.5	1,470.9
Merger reserve	(4,535.6)	(4,535.6)
Fair value reserve	(197.5)	(174.7)
Profit and loss reserve	3,234.5	3,365.3
Total shareholder's funds	499.3	635.9

The Special purpose consolidated financial statements of BAA (SP) Limited (Company registration number: 06458621) 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 (SP) Limited

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

	Unaudited Six months ended 30 June 2011 £m	Unaudited Six months ended 30 June 2010 ¹ £m
Operating profit – continuing operations	287.7	217.3
<i>Adjustments for:</i>		
Depreciation (including exceptional depreciation and impairment)	245.4	257.5
(Gain)/loss on disposal of tangible fixed assets	(0.2)	0.3
<i>Working capital changes:</i>		
(Increase)/decrease in stock and debtors	(26.0)	9.0
Increase in creditors	9.5	13.2
Decrease in provisions	(6.2)	(9.2)
Difference between pension charge and cash contributions	(18.0)	(13.0)
Exceptional pension credit	(22.6)	(76.7)
Net cash inflow from operating activities – continuing	469.6	398.4
Net interest paid	(172.3)	(178.1)
Taxation – group relief (paid)/received	(15.9)	1.0
Capital expenditure	(431.1)	(386.9)
Disposal of subsidiary – pension and disposal costs	(4.5)	(121.5)
Net cash outflow before use of liquid resources and financing	(154.2)	(287.1)
Management of liquid resources	(6.7)	88.5
Issuance of bonds	1,507.9	-
(Repayment)/drawdown of capital expenditure facility	(250.0)	75.0
Repayment of other facilities and other items	(1,167.2)	(119.5)
Drawdown of amount owed to BAA (SH) plc	134.8	-
Settlement of accretion on index-linked swaps	(15.0)	-
Cancellation of derivatives	(53.1)	(73.9)
Prepayment of derivative interest	-	(36.7)
Restricted cash	-	143.0
Issuance of ordinary share capital	-	217.4
Net cash inflow from financing²	157.4	205.3
(Decrease)/increase in cash	(3.5)	6.7

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 inflow from financing

In the six months ended 30 June 2011, the Group received proceeds of £1,507.9 million from three bond issues, comprising a US\$1 billion issuance generating proceeds of £616.2 million, a £750.0 million thirty-year Class A sterling bond issue generating proceeds of £737.4 million and a re-opening of the existing index-linked sterling bond with scheduled redemption date in December 2039 generating proceeds of £154.3 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.