

BAA (SP) Limited

**Special purpose consolidated financial statements
for the six months ended 30 June 2012**

Unaudited

BAA (SP) Limited

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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 2012 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 2011.

On behalf of the Board



José Leo
Director

25 July 2012

Company registration number: 06458621

BAA (SP) Limited

Consolidated profit and loss account for the six months ended 30 June 2012

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011 £m
Turnover – continuing operations	1,164.2	1,073.9	2,280.0
Operating costs – ordinary	(863.8)	(797.8)	(1,656.8)
Operating (costs)/gain – exceptional: pensions ¹	(132.6)	22.6	(40.3)
Operating costs – exceptional: other ²	-	(11.0)	(10.8)
Total operating costs	(996.4)	(786.2)	(1,707.9)
Total operating profit – continuing operations	167.8	287.7	572.1
Gain on disposal of Gatwick airport – discontinued operations	-	-	7.9
Interest receivable and similar income	123.2	106.4	220.4
Interest payable and similar charges	(493.9)	(499.4)	(1,010.3)
Fair value gain/(loss) on financial instruments	152.0	(143.9)	(45.9)
Net interest payable and similar charges	(218.7)	(536.9)	(835.8)
Loss on ordinary activities before taxation	(50.9)	(249.2)	(255.8)
Tax credit on loss on ordinary activities ³	54.7	118.8	64.3
Profit/(loss) on ordinary activities after taxation	3.8	(130.4)	(191.5)

¹ Operating costs – exceptional: pensions
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 - ordinary. Cash contributions are made directly by the Group's airports to the BAA Airports Limited pension schemes on behalf of BAA Airports Limited.

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

For the six months ended 30 June 2012 an exceptional pension charge of £132.6 million (six months ended 30 June 2011: £22.6 million credit, year ended 31 December 2011: £40.3 million charge) was incurred. This reflects the Group's share of the movement in the BAA Airports Limited defined benefit pension scheme from a surplus to a deficit.

² Operating costs – exceptional: other
The impairment charge of £11.0 million in both the six months ended 30 June 2011 and year ended 31 December 2011 was in relation to the Airtrack rail project which the Group has decided not to pursue.

³ Tax credit on loss on ordinary activities
The tax credit for the six months ended 30 June 2012 results in an effective tax credit rate for the period of 107.5%. This reflects a tax credit arising on ordinary activities of £44.5 million and a tax credit of £10.2 million due to the further reduction in the rate of corporation tax from 25% to 24% from 1 April 2012 as announced by the Government on 21 March 2012.

For the six months ended 30 June 2011 the effective tax credit rate for the period was 47.7%, reflecting the tax credit arising on ordinary activities of £106.8 million and a tax credit of £12.0 million due to the reduction in the rate of corporation tax from 27% to 26% from 1 April 2011.

For the year ended 31 December 2011 the effective tax credit rate was 25.1%, reflecting the tax credit arising on ordinary activities of £40.3 million and a tax credit of £24.0 million due to the reduction in the rate of corporation tax to 26% from 1 April 2011 and to 25% from 1 April 2012.

The tax credit for the six months ended 30 June 2012 on ordinary activities results in an effective tax credit rate of 87.4% (six months ended 30 June 2011: 42.9%; year ended 31 December 2011: 15.8%). 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 2012. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 24.5% 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.

On 21 March 2012, the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013. The reduction in the corporation tax rate to 24% was substantively enacted on 26 March 2012 and as a result the Group's deferred tax balances, which were previously provided at 25%, were re-measured at the rate of 24%. This has resulted in a reduction in the net deferred tax liability of £4.9 million, with £10.2 million credited to the profit and loss account and £5.3 million charged to reserves. The reduction in the rate to 23% was enacted in the Finance Act 2012 on 17 July 2012. As a result, the Group's deferred tax balances, which are currently provided at 24% will be re-measured at the rate of 23% for the year ended 31 December 2012. Had this change been substantively enacted at 30 June 2012, this would have further reduced the net deferred tax liability by £4.9 million, with £10.2 million credited to the profit and loss account and £5.3 million charged to reserves.

For the six months ended 30 June 2011, the reduction in the corporation tax rate from 27% to 26% 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.

For the year ended 31 December 2011, the reduction in corporation tax rate from 27% to 25% resulted in a reduction in the net deferred tax liability of £20.1 million, with £24.0 million credited to the profit and loss account and £3.9 million charged to reserves.

BAA (SP) Limited

Consolidated statement of total recognised gains and losses for the six months ended 30 June 2012

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011 £m
Profit/(loss) for the financial period	3.8	(130.4)	(191.5)
Unrealised gain on revaluation of investment properties	10.1	16.6	43.5
Realised loss on revaluation of tangible fixed assets	(0.6)	-	-
Losses on cash flow hedges taken directly to equity	(38.6)	(28.2)	(290.2)
Deferred tax credit arising on cash flow hedges taken directly to equity	4.0	5.4	68.6
	(25.1)	(6.2)	(178.1)
Total recognised losses for the period	(21.3)	(136.6)	(369.6)

Consolidated reconciliation of movements in shareholder's funds for the six months ended 30 June 2012

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011
Profit/(loss) for the financial period	3.8	(130.4)	(191.5)
Other recognised losses relating to the period (net)	(25.1)	(6.2)	(178.1)
Dividends paid	(415.0)	-	(24.8)
Net movement in shareholder's funds	(436.3)	(136.6)	(394.4)
Opening shareholder's funds	241.5	635.9	635.9
Closing shareholder's funds	(194.8)	499.3	241.5

BAA (SP) Limited

Consolidated balance sheet as at 30 June 2012

	Unaudited 30 June 2012 £m	Unaudited 30 June 2011 £m	Audited 31 December 2011 £m
Fixed assets			
Tangible fixed assets	12,519.6	11,905.8	12,160.5
Financial assets – derivative financial instruments	330.9	389.9	369.1
Total fixed assets	12,850.5	12,295.7	12,529.6
Current assets			
Stocks	8.3	6.7	8.0
Debtors: amounts falling due within one year	290.1	400.2	305.9
Financial assets – derivative financial instruments	-	218.0	170.9
Current asset investments	-	47.7	21.0
Cash at bank and in hand	4.3	2.6	12.2
Total current assets	302.7	675.2	518.0
Current liabilities			
Creditors: amounts falling due within one year	(730.4)	(1,513.9)	(1,553.2)
Net current liabilities	(427.7)	(838.7)	(1,035.2)
Total assets less current liabilities	12,422.8	11,457.0	11,494.4
Creditors: amounts falling due after more than one year	(12,444.4)	(10,755.5)	(11,096.0)
Deferred tax	(64.4)	(148.5)	(123.1)
Provisions for liabilities and charges	(108.8)	(53.7)	(33.8)
Net assets	(194.8)	499.3	241.5
Capital and reserves			
Called up share capital	11.0	11.0	11.0
Share premium reserve	499.0	499.0	499.0
Revaluation reserve	805.9	1,487.5	1,514.4
Merger reserve	(4,535.6)	(4,535.6)	(4,535.6)
Fair value reserve	(430.9)	(197.5)	(396.3)
Profit and loss reserve	3,455.8	3,234.9	3,149.0
Total shareholder's funds	(194.8)	499.3	241.5

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 25 July 2012. 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 2012

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011 £m
Operating profit – continuing operations	167.8	287.7	572.1
<i>Adjustments for:</i>			
Depreciation (including impairment)	254.8	245.4	519.9
Gain on disposal of tangible fixed assets	(0.5)	(0.2)	(0.3)
<i>Working capital changes:</i>			
Decrease/(increase) in stock and debtors	14.8	(26.0)	(34.6)
(Decrease)/increase in creditors	(10.3)	9.5	30.6
Net release of provisions	(4.0)	(6.2)	(7.3)
Difference between pension charge and cash contributions	(20.2)	(18.0)	(35.7)
Exceptional pension charge/(credit)	132.6	(22.6)	40.3
Exceptional working capital settlement of intercompany balance	-	-	47.2
Net cash inflow from operating activities – continuing	535.0	469.6	1,132.2
Net interest paid	(215.0)	(172.3)	(388.8)
Taxation – group relief paid	(10.1)	(15.9)	(27.2)
Net capital expenditure	(553.5)	(431.1)	(864.7)
Disposal of subsidiary – pension and disposal costs	(1.1)	(4.5)	(6.1)
Dividends paid	(415.0)	-	(24.8)
Net cash outflow before use of liquid resources and financing	(659.7)	(154.2)	(179.4)
Management of liquid resources	21.0	(6.7)	20.0
Issuance of bonds	2,834.8	1,507.9	1,507.9
Repayment of bonds	(680.2)	-	-
(Repayment)/drawdown of capital expenditure facility	(1,286.2)	(250.0)	95.0
Repayment of facilities and other items	(454.0)	(1,167.2)	(1,339.8)
Increase of amount owed to BAA (SH) plc	228.5	134.8	31.8
Settlement of accretion on index-linked swaps	-	(15.0)	(15.0)
Cancellation and restructuring of derivatives	(12.1)	(53.1)	(114.4)
Net cash inflow from financing¹	630.8	157.4	165.5
(Decrease)/increase in cash	(7.9)	(3.5)	6.1

¹ Net cash inflow from financing

In the six months ended 30 June 2012, the Group received proceeds of £2,834.8 million through ten transactions across a range of currencies, rating levels and formats. Highlights of this activity were the completion of £1 billion in Class B issuance through two transactions – a £600 million twelve year bond and a £400 million eight year bond. There were also debut offerings in both Swiss francs (CHF400 million five year Class A bond) and Canadian dollars (C\$400 million seven year Class A bond). Other notable transactions included a €700 million five year Class A bond, a €95 million tap of the existing 2039 index-linked bond, an innovative £180 million ten year index-linked private placement and a US\$500 million three year bond that builds on the Group's presence in the US market established in 2011.