

BAA (SP) LIMITED GROUP

**‘Special Purpose’ Consolidated Financial Statements
for the six month period ended 30 June 2010
(Unaudited)**

**‘SPECIAL PURPOSE’ CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2010**

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DIRECTORS' REPORT

The attached unaudited consolidated financial statements of 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 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 2010 and for the six month period then ended. The financial statements have been prepared applying consistent accounting principles to those applied for the year ended 31 December 2009.



Jose Leo
Director

6 August 2010

Company Registration Number 06458621

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six month period ended 30 June 2010

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 ¹ £m
Turnover - continuing operations	957.6	937.2
Turnover - discontinued operations	-	217.3
Total turnover	957.6	1,154.5
Operating costs – ordinary	(794.7)	(937.1)
Operating costs – exceptional: pensions ²	76.7	(218.5)
Operating costs – exceptional: other ³	(22.3)	(36.7)
Total operating costs	(740.3)	(1,192.3)
Operating profit - continuing operations	217.3	(21.4)
Operating profit - discontinued operations	-	(16.4)
Total operating (loss)/profit	217.3	(37.8)
Gain on disposal of Gatwick airport - discontinued operations ⁴	14.6	-
Exceptional impairment of fixed assets ⁵	(104.4)	-
Interest receivable	76.1	77.5
Interest payable and similar charges	(406.4)	(402.7)
Fair value loss on financial instruments	(76.9)	(182.7)
Net interest payable and similar charges	(407.2)	(507.9)
Loss on ordinary activities before taxation	(279.7)	(545.7)
Tax credit on loss on ordinary activities ⁶	19.5	153.3
Loss on ordinary activities after taxation	(260.2)	(392.4)

¹ The presentation of certain balances for the six months ended 30 June 2009 has been restated as a result of the disposal of Gatwick airport and its resulting classification as a discontinued operation together with the change in accounting policy for accretion on index-linked swaps.

² Operating costs - exceptional: pensions
 Since August 2008 each airport and HEX has had a legal obligation to fund their share of the BAA Airports Limited pension deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits ('UURBS') (pension related liabilities) under the Shared Services Agreement ('SSA'). These obligations are based on the Group's share of the actuarial deficit. The share of the deficit has been allocated on the basis of pensionable salaries and the related charge or credit recorded as an exceptional item due to its unusual nature. These obligations are recorded as Provisions for liabilities and charges, and will only be settled when the cash outflows are requested to BAA Airports Limited by the Pension Trustee.

For the six months ended 30 June 2010 a net credit of £76.7 million was recognised in relation to exceptional pension costs (six months ended 30 June 2009: £218.5 million charge) incurred in relation to the push down of the Group's share of the deficit on the BAA Airports Limited defined benefit pension scheme in accordance with the SSA. The credit in the period relates to the decrease in the scheme deficit since 31 December 2009 caused primarily by reduced liabilities reflecting a lower forecast inflation expectations. In addition to this credit, the Provision for liabilities and charges - pension balance has reduced due to the commutation payment made into the scheme by BAA (AH) Limited following the disposal of Gatwick airport.

³ Operating costs - exceptional: other
 The remainder of the operating exceptional items primarily reflect a charge of £18.7 million (six months ended 30 June 2009: £37.9 million) related to accelerated depreciation due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The accelerated depreciation charge has reduced from the prior year due to the full write-off of the old Terminal 2 by its closure in late 2009 and the charge relating to Terminal 1 no longer being treated as exceptional since the first quarter of 2010 as its remaining useful life has been extended.

⁴ Gain on disposal of Gatwick airport - discontinued operations
 The £14.6 million gain on disposal of Gatwick reflects a provision release due to the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six month period ended 30 June 2010 (continued)

⁵ Exceptional impairment of fixed assets

As a result of the change in UK Government and its stance towards runway developments, BAA announced that it was withdrawing its planning permission applications for Stansted Generation 2 ("SG2") and ceasing work on the development of the planning application for a third runway at Heathrow ("R3"). At the half year an exceptional impairment charge of £104.4 million has been made in relation to the write off of associated runway development costs. This charge does not have an impact on the airports' regulatory asset base and has no cash impact.

⁶ Tax credit on loss on ordinary activities

The tax credit for the six months ended 30 June 2010 results in an effective tax rate for the period of 7.0% (30 June 2009: 28.1%). This credit is calculated by applying the forecast tax rate for each entity for the full year to the results for the 6 month period ended 30 June 2010.

The tax credit for the period differs 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.

The new UK government has announced that the main rate of UK corporation tax will change from 28% to 27% with effect from 1 April 2011. This change was enacted in the Finance (No. 2) Act 2010. As a result, the Group's deferred tax balances, which are currently provided at 28%, will be remeasured at the rate of 27% for the year ended 31 December 2010. Had this change been enacted at 30 June 2010 this would have resulted in a reduction in the net deferred tax liability by £10.4 million, with £12.2 million credited to the profit and loss account and £1.8 million charged to reserves.

All profits and losses recognised during the current and prior period arise from operations in the United Kingdom.

There are no material differences between the loss on ordinary activities before taxation.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the six month period ended 30 June 2010

	Six months ended 30 June 2010	Six months ended 30 June 2009
	£m	£m
Loss for the financial period	(260.2)	(392.4)
Unrealised loss on revaluation of investment properties	(2.6)	(223.2)
Gains on cash flow hedges taken directly to equity	(133.6)	284.7
Deferred tax arising on cash flow hedge gains	37.4	(79.7)
	(98.8)	(18.2)
Total recognised losses relating to the financial period	(359.0)	(410.6)

CONSOLIDATED NOTE OF HISTORICAL PROFITS AND LOSSES
For the six month period ended 30 June 2010

	Six months ended 30 June 2010	Six months ended 30 June 2009
	£m	£m
Reported loss on ordinary activities before taxation	(279.7)	(545.7)
Adjusted for:		
Realisation of revaluation reserve - Gatwick disposal	-	-
Historical cost loss on ordinary activities before taxation	(279.7)	(545.7)
Historical cost loss on ordinary activities after taxation	(260.2)	(392.4)

CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
For the six month period ended 30 June 2010

	Six months ended 30 June 2010	Six months ended 30 June 2009
	£m	£m
Loss for the financial period	(260.2)	(392.4)
Other recognised gains and losses relating to the period (net)	(98.8)	(18.2)
Proceeds of ordinary shares issued for cash	0.4	-
Premium on ordinary shares issued	217.0	-
Capital distribution ¹	(16.1)	-
Tax charge on capital contribution	(24.8)	-
Net movement in shareholder's funds	(182.5)	(410.6)
Opening shareholder's funds	826.0	1,138.1
Closing shareholder's funds	643.5	727.5

¹ Capital distribution

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

CONSOLIDATED BALANCE SHEET
As at 30 June 2010

	30 June 2010 £m	31 December 2009 £m
FIXED ASSETS		
Tangible fixed assets	11,468.3	11,473.8
Financial assets - derivative financial instruments	461.2	683.0
	11,929.5	12,156.8
CURRENT ASSETS		
Stocks	5.2	4.9
Debtors: due within one year	323.9	303.2
Financial assets - derivative financial instruments	0.2	0.3
Current asset investments	146.0	234.5
Restricted cash	-	143.0
Cash at bank and in hand	10.7	4.0
	486.0	689.9
Creditors: amounts falling due within one year	(2,441.2)	(558.6)
	(1,955.2)	131.3
NET CURRENT ASSETS	(1,955.2)	131.3
TOTAL ASSETS LESS CURRENT LIABILITIES	9,974.3	12,288.1
Creditors: amounts falling due after more than one year	(9,031.9)	(10,830.9)
Deferred tax	(185.5)	(291.4)
Provisions for liabilities and charges - pensions	(66.5)	(231.8)
Provisions for liabilities and charges - other	(46.9)	(108.0)
	643.5	826.0
NET ASSETS	643.5	826.0
CAPITAL AND RESERVES		
Called up share capital ¹	11.0	10.6
Share premium reserve	499.0	282.0
Revaluation reserve	1,439.8	1,442.4
Merger reserve	(4,535.6)	(4,535.6)
Fair value reserve	(196.7)	(100.5)
Profit and loss reserve	3,426.0	3,727.1
	643.5	826.0
SHAREHOLDER'S FUNDS	643.5	826.0

¹ On 28 January 2010, the Company issued 217,370,315 ordinary shares to BAA (SH) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share. On the same day the proceeds were utilised by the Company to purchase an additional 217,370,315 ordinary shares issued by its subsidiary BAA (AH) Limited with a nominal value of £0.015 each and at a premium of £0.9985 per ordinary share completing the £500 million equity injection into the BAA (SP) Limited Group which had been previously announced.

These special purpose financial statements were approved and authorised for issue by the Board of Directors on 6 August 2010 and were signed on its behalf by:



Jose Leo
Director



Frederick Maroudas
Director

CONSOLIDATED SUMMARY CASH FLOW STATEMENT
For the six month period ended 30 June 2010

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 ¹ £m
Operating profit/(loss) - continuing operations	217.3	(21.4)
<i>Adjustments for:</i>		
Depreciation (including exceptional depreciation)	257.5	256.4
Loss/(gain) on disposal of tangible fixed assets	0.3	-
<i>Working capital changes:</i>		
Decrease/(increase) in stock and debtors	9.0	(7.1)
Increase in creditors	13.2	4.3
Decrease in provisions	(23.6)	(4.7)
Difference between pension charge and cash contributions	(13.0)	(13.0)
Exceptional pension (credit)/charge	(76.7)	167.5
Net cash inflow from operating activities - continuing	384.0	382.0
Net cash inflow from operating activities - discontinued		49.4
Net interest paid	(178.1)	(244.0)
Taxation		
Group relief received	1.0	22.2
Net capital expenditure	(386.9)	(508.5)
Disposal of Gatwick Airport Limited - pensions	(107.1)	-
Cash movement before use of liquid resources and financing	(287.1)	(298.9)
Management of liquid resources		
Increase in short term deposits	88.5	(48.7)
Financing		
Prepayment of derivative interest	(36.7)	-
Cancellation of derivatives	(73.9)	-
Issuance of ordinary share capital	217.4	-
Restricted cash	143.0	
Other financing flows	(44.5)	324.5
Movement in cash in the period	6.7	(23.1)

¹ The presentation of certain balances for the six months ended 30 June 2009 has been restated as a result of the disposal of Gatwick airport and its resulting classification as a discontinued operation.