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News Release

25 July 2012

BAA (SP) Limited

Results for the six months ended 30 June 2012

BAA (SP) Limited owns BAA's two London airports of Heathrow and Stansted. Throughout this document, BAA (SP) Limited and its subsidiaries are referred to as the Group. BAA (SH) plc is the parent company of BAA (SP) Limited.

- **Heathrow passengers up 2.2% to a H1 record of 33.6 million, with combined Heathrow and Stansted passengers up 0.8% to 41.8 million**
- **Revenue up 8.4% reflecting higher tariffs and continued growth in retail income**
- **Adjusted EBITDA up 8.8% supporting further increase in Heathrow capital investment**
- **Remain on track to deliver 2012 full year financial targets set out in recent investor report**
- **Transformed financing position with completion of 11 capital markets transactions and refinancing of revolving credit facilities**

At or for six months ended 30 June	**2012**	2011	Change (%)
(figures in £m unless otherwise stated)			
Revenue	**1,164.2**	1,073.9	8.4
Adjusted EBITDA(1)	**555.2**	510.5	8.8
Cash generated from operations	**535.0**	469.6	13.9
Adjusted pre-tax loss(2)	**(70.3)**	(116.9)	(39.9)
Pre-tax loss	**(50.9)**	(249.2)	(79.6)
BAA (SP) Limited consolidated net debt(3)(4)	**11,031.7**	10,442.6	5.6
BAA (SH) plc consolidated net debt(3)(4)	**11,606.8**	10,992.2	5.6
Regulatory Asset Base(4)	**14,253.7**	13,849.7	2.9
Passengers (m)(5)	**41.8**	41.4	0.8
Net retail income per passenger(5)(6)	**£5.72**	£5.59	2.4

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(2) Adjusted pre-tax loss is before exceptional items and fair value adjustments
(3) Nominal net debt for ratio purposes, excluding intra-BAA group loans and including inflation-linked accretion
(4) 2011 net debt and RAB figures are as at 31 December 2011
(5) Changes in passengers and net retail income per passenger are calculated using unrounded data
(6) See section 2.2.2.2 for analysis of net retail income per passenger including commentary on underlying performance

Colin Matthews, Chief Executive Officer of BAA, said:

"BAA is reporting a strong operational and financial performance for the first half of 2012. Higher passenger numbers and increased yields are driving revenue growth which is being invested in new facilities for passengers. Passengers tell us they are noticing the improvements with Heathrow receiving its highest ever passenger satisfaction scores in the two most recent quarterly Airport Service Quality surveys.

"We are pleased that Olympic arrivals have gone smoothly so far but there is lots more to do. London 2012 is Britain's biggest peacetime transport challenge and we are spending more than £20 million to ensure Heathrow is ready for its busiest ever period, including building a temporary Games Terminal; preparing to host remote check-in at the Olympic Village; and training more than 1,000 volunteers who are giving a warm welcome to athletes on behalf of London."

For further information please contact

BAA		
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There will be a conference call today at 3.00 pm (UK time)/4.00 pm (Central European time)/10.00 am (Eastern standard time) for bondholders and bank lenders to the Group and BAA (SH) plc and credit analysts to discuss the results for the six months ended 30 June 2012. The call will be hosted by Colin Matthews and José Leo, BAA's Chief Executive Officer and Chief Financial Officer respectively. Dial-in details for the call are: UK free phone: 0800 368 1950; US free phone: 1866 928 6049; UK local/standard international: +44 (0)20 3140 0668. Participant PIN code is 494489#. It will also be possible to view online the presentation (using event password: 385874) as it is used during the call at:

https://arkadin-trial.webex.com/arkadin-trial/j.php?ED=217209072&UID=491373747&PW=NYzFjZDFhNGJj&RT=MiMyMQ%3D%3D

BAA

BAA (SP) Limited

Consolidated results for the six months ended 30 June 2012

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1 Key business developments

1.1 Passenger traffic

Passenger traffic for the six months ended 30 June 2012 at the Group's airports is analysed below:

(figures in millions unless otherwise stated)	**2012**	2011	Change (%)(1)
Passengers by airport			
Heathrow	**33.6**	32.9	2.2
Stansted	**8.2**	8.5	(4.5)
Total passengers(1)	**41.8**	41.4	0.8
Passengers by market served			
UK	**2.9**	3.0	(3.3)
Europe(2)	**21.0**	20.9	0.3
Long haul	**17.8**	17.4	2.2
Total passengers(1)	**41.8**	41.4	0.8

(1) These figures have been calculated using un-rounded passenger numbers
(2) Includes North African charter traffic

In the six months ended 30 June 2012, the Group's passenger traffic increased 0.8% to 41.8 million passengers (2011: 41.4 million). The year on year growth was driven by Heathrow where traffic increased 2.2% to 33.6 million passengers (2011: 32.9 million), a new record for the first half of the year (the previous record being 33.0 million set in 2006). In the 12 months to 30 June 2012, Heathrow annual rolling traffic was 70.1 million. Heathrow's strong performance was partially offset by a 4.5% decline in traffic at Stansted to 8.2 million passengers (2011: 8.5 million).

Adjusting for 2012 being a leap year, underlying growth is estimated at 0.3%, with an increase of 1.7% at Heathrow and a decline of 4.9% at Stansted. Year on year traffic performance for the Group was stronger in the first quarter of 2012 (+2.5%) than in the second quarter (-0.5%) driven by both the leap year effect and a change in the timing of Easter compared to 2011.

Heathrow’s performance has continued to be driven by North Atlantic traffic which increased 4.7% to 7.7 million passengers (2011: 7.3 million). This performance reflects the success of American Airlines’ and British Airways’ joint transatlantic services, albeit moderated since passing the first anniversary (in March 2012) of the launch of these services. Traffic to other long haul destinations also increased robustly, up 1.8% to 10.0 million (2011: 9.8 million) with particular strength in services with Brazil (due to increased services) and the Middle East (due to recovery in key markets from the unrest in the region that impacted 2011). Heathrow’s European traffic also grew, increasing 1.6% to 13.7 million passengers (2011: 13.4 million), with strong performance in markets such as Germany (+4.2%) and Switzerland (+5.6%) offset by weakness in markets such as Italy (-9.7%), Greece (-8.0%) and Spain (-1.6%). Domestic traffic declined 0.5% to 2.3 million passengers (2011: 2.3 million) although performance improved significantly in the second quarter, due primarily to passing the first anniversary (in March 2012) of the cessation of bmi’s Glasgow service.

Heathrow’s traffic during the first half of 2012 has been characterised by higher load factors (73.2% versus 72.1% in the first half of 2011) and more seats per aircraft (196.1 versus 194.1 in the first half of 2011). These are both key drivers of future growth in Heathrow’s traffic given its capacity constraints. These factors were partially offset by marginally fewer flights (235,164 versus 235,881 in the first half of 2011). The proportion of transfer traffic at Heathrow was 36% (2011: 36%).

Stansted’s traffic declined 4.5% to 8.2 million passengers (2011: 8.5 million). Stansted’s core European scheduled market saw traffic decline 2.0% to 6.5 million passengers (2011: 6.6 million), with the decline limited to 1.2% in the second quarter. As in 2011, Stansted has continued to experience record load factors that reached 78.2% in the first six months of 2012 (2011: 78.0%), suggesting limited deterioration in demand dynamics. Declines in traffic in other markets were driven mostly by cessation of a limited number of services, such as Prestwick and Newcastle in the domestic market and Kuala Lumpur (Air Asia X) in the long haul market.

1.2 Investment in modern airport facilities

Heathrow continues to be the focus of the capital investment programme, a key enabler of the Group’s strategic objective of enhancing Heathrow’s leading position in the global aviation industry and particularly its long-standing role as the UK's gateway to the world. The investment programme’s current focus is on the construction of the new Terminal 2, which remains on budget with construction due to be completed in late 2013 and operations due to commence in 2014. In addition, significant investment continues on Heathrow’s baggage infrastructure.

Close to £550 million was invested at Heathrow in the first half of 2012. Now that the main Terminal 2 building is weather-tight, fit out in the building is making significant progress, with work on walls, ceilings, floors and communications rooms well under way. Baggage conveyors and escalators are being installed and work has begun on fabric ceiling coverings to offer a light and airy appearance inside the terminal. The first IT data link for information and communication systems in Terminal 2 was successfully joined to the main Heathrow network which means that further significant IT work can follow.

The second phase of the satellite Terminal 2B is scheduled to be weather-tight in the third quarter of 2012. The superstructure connecting the north and south sections is complete and fit out continues with the installation of mechanical and electrical services, lifts and passenger conveyors and the formation of internal rooms. The passenger tunnel linking Terminal 2B with the main Terminal 2 building is formed with work underway on the fit out of service modules along its length.

Construction of Terminal 2’s multi-storey car park, and the associated ramp which will take cars to the upper level, is progressing at speed with components being fabricated off-site and brought in at night to avoid disruption to the airport’s operation and inconvenience to local residents.

In Heathrow’s baggage investment programme, the new underground automated baggage transfer system between Terminals 3 and 5 is in final commissioning. Elsewhere works on the superstructure for Terminal 3’s new integrated baggage system are now well under way. The main elements of the baggage system have been manufactured off-site and are expected to be delivered to Heathrow in the next few months. Good progress is now being made on the steel frame for the superstructure and the first roof panels have been installed.

A significant programme of refurbishment works has commenced in Terminal 4's departure lounge that are expected to be completed by the end of 2012.

1.3 Service standards

The Group's focus on delivering transformational change in passengers' experience of its airports continues to receive significant endorsement from the travelling public, demonstrating that passengers are noticing the improvements made by the airports. Most importantly, in April 2012 Heathrow Terminal 5 was named the world's best airport terminal in the 2012 SKYTRAX World Airport Awards. Stansted was named as the world's best airport for low cost airlines in the same awards.

Further, Heathrow achieved its two highest ever scores for overall passenger satisfaction in the Airport Service Quality survey (produced by Airports Council International) of 3.92 and 3.91 for the first and second quarters of 2012 respectively.

Individual service standards continue to perform robustly at Heathrow and Stansted. On departure punctuality, the proportion of aircraft departing within 15 minutes of schedule during the six months ended 30 June 2012 was 79% (2011: 81%) at Heathrow and 90% (2011: 89%) at Stansted. Further, Heathrow's baggage misconnect rate was 14 per 1,000 passengers (2011: 15). On security queuing, passengers passed through central security within periods prescribed under service quality rebate schemes 96.1% (2011: 97.5%) of the time at Heathrow and 98.7% (2011: 97.4%) of the time at Stansted during the six months ended 30 June 2012. This compares with 95.0% service standards.

1.4 Competition Commission inquiry into the supply of UK airport services by BAA

In February 2012, the Competition Appeal Tribunal ('CAT') rejected BAA's request for the judicial review of the Competition Commission's ('CC') decision in July 2011 that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision particularly with regard to the requirement to sell Stansted. In May 2012, BAA was given permission by the Court of Appeal to appeal the CAT's judgment. The Court of Appeal hearing took place on 23 July 2012. Judgement is expected on 26 July 2012.

1.5 Tariff setting process for next regulatory period

The next regulatory period for the Group's airports is scheduled to begin in April 2014 and work has commenced with both the Civil Aviation Authority ('CAA') and airport airline communities on the process that will lead to setting tariffs for the new period. This includes the constructive engagement process formally launched with Heathrow's airline community in April 2012 (relating to various key aspects of Heathrow's expected development in the next regulatory period). In addition, in May 2012 the CAA launched a consultation regarding potential options for the regulatory arrangements at the UK's regulated airports during the next regulatory period. Heathrow recently submitted its response to the consultation.

Next steps in the tariff setting process include distribution to the airline community and the CAA on 30 July 2012 of Heathrow's initial business plan for the next regulatory period. Formal consultation by the CAA on the review of price regulation is expected in early 2013 once the current constructive engagement process is completed, Heathrow publishes its final business plan in January 2013 and the CAA has completed its own research and analysis. It is currently expected that the CAA's final price cap proposals will be published later in 2013 and the CAA's decision on licence conditions will be published in January 2014.

Heathrow's initial business plan is expected to include an indicative traffic forecast (consistent with the evolution of Heathrow's traffic forecasting methodology disclosed in 2011 which has now been reviewed by airlines and a jointly retained external adviser). Key elements of the methodology recognise the capacity constraints at Heathrow as well as the impact of external shocks (relating to factors such as geopolitical events, natural disasters (e.g. volcanic ash) or industrial action). The initial business plan traffic forecast may evolve to the extent there are changes in macro-economic expectations from those foreseen in the first half of 2012. On this basis, the traffic forecast shows modestly increasing passenger traffic over the next regulatory period that, after allowing for external shocks, averages around the current un-shocked traffic performance Heathrow is enjoying.

The initial business plan will also outline Heathrow's indicative capital investment plan ('CIP'). Heathrow has delivered significant improvements in recent years for passengers and airlines. This can be seen in substantially increased passenger satisfaction – today 72% of passengers rate Heathrow as either excellent or very good compared to 54% in 2008. This reflects passengers' recognition of improvements in their airport journey including improved punctuality and significantly improved baggage performance that have also lowered airline costs. These improvements have been achieved as a result of both enhancing operations and sustained substantial investment that Heathrow expects to maintain through the next regulatory period.

The CIP for 2014-2019 will include a plan for continued passenger experience improvements, ensuring there are sufficient facilities to handle expected growth in passenger numbers and aircraft size and enabling a competitive cost of operation at Heathrow. The CIP will be aligned to Heathrow's masterplan and the speed at which it is developed will be matched to the amount of capital that is affordable in the period.

Whilst its scope is likely to evolve through the constructive engagement process, the initial business plan will assume capital spend over the next regulatory period of approximately £3 billion (in 2011/12 prices). Specific developments in the next regulatory period will include opening of the new Terminal 2 (along with associated airline moves), completion of the Terminal 3 integrated baggage system, the start of construction of Terminal 5E, Heathrow's financial contribution to Crossrail (subject to regulatory approval), more extensive electronic immigration processing, enhancing the transfer passenger security process, initiatives to improve taxiway access for the largest aircraft such as A380 and airport wide compliance with the latest baggage screening technology required by 2018.

Financing the continued investments will be supported by tariff increases. The initial business plan outlines an opening price adjustment as one basis to take into account the significantly lower passenger numbers than previously expected at the end of the current regulatory period. Once adjusted for lower passenger numbers, the initial business plan will indicate that tariffs increase by around 3.5% per annum in real terms through the next regulatory period.

Stansted will be making representations to the CAA to the effect that there is scope for de-regulation from the end of the current regulatory period.

1.6 Implications of acquisition of bmi by IAG

In April 2012, International Airlines Group completed the acquisition of bmi. As a result, the majority of bmi's mainline operations (after disposing of a proportion of slots to other airlines required by the EU in approving the transaction) are being integrated into British Airways' operations at Heathrow. The combination of the two airlines is likely to have important implications for Heathrow in the coming years.

The acquisition provides British Airways with the opportunity to make more efficient use of bmi's slot portfolio, which is particularly valuable given the airport's capacity constraints. It is expected that British Airways will utilise the acquired slots across both long and short haul services, offering passengers better connectivity via more destinations and a better schedule of flight timings across the Heathrow hub. New services to Seoul, Zagreb, Belfast and Leeds Bradford have already been announced by British Airways as well as an intention to start new long haul services to fast growing Asian and Latin American cities and add further short haul destinations to its route network.

The acquisition is also expected to have important medium term implications for Heathrow's terminal occupancy plans.

2 Financial review

2.1 Basis of preparation

BAA (SP) Limited ('BAA (SP)') is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service (the 'Group'). The Group's statutory accounts are prepared under UK GAAP. Unaudited consolidated financial information is set out in Appendix 1. A detailed analysis of turnover and operating costs both by airport and activity is set out in Appendix 2.

2.2 Profit and loss account

2.2.1 Introduction

The profit and loss account below provides more detailed disclosure than the statutory format in Appendix 1 in order to enable a better understanding of the results of the Group's operations.

Six months ended 30 June	**2012 £m**	2011 £m
Group turnover	**1,164.2**	1,073.9
Adjusted operating costs(1)	**(609.0)**	(563.4)
Adjusted EBITDA(2)	**555.2**	510.5
Exceptional items – pensions(3)	**(132.6)**	22.6
Exceptional items – impairment(3)	**-**	(11.0)
EBITDA	**422.6**	522.1
Depreciation – ordinary	**(254.8)**	(234.4)
Operating profit	**167.8**	287.7
Net interest payable and similar charges	**(370.7)**	(393.0)
Fair value gain/(loss) on financial instruments	**152.0**	(143.9)
Total net interest payable and similar charges	**(218.7)**	(536.9)
Loss on ordinary activities before taxation	**(50.9)**	(249.2)
Tax credit on loss on ordinary activities	**54.7**	118.8
Profit/(loss) on ordinary activities after taxation	**3.8**	(130.4)

(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
(3) See section 2.2.6 for further discussion of exceptional items

2.2.2 Turnover

In the six months ended 30 June 2012, turnover increased 8.4% to £1,164.2 million (2011: £1,073.9 million), reflecting growth of 12.5%, 3.0% and 4.1% in aeronautical, retail and other income respectively.

Six months ended 30 June	**2012 £m**	2011 £m	Change (%)
Aeronautical income	**661.1**	587.9	12.5
Retail income	**254.0**	246.7	3.0
Other income	**249.1**	239.3	4.1
Total	**1,164.2**	1,073.9	8.4

2.2.2.1 Aeronautical income

Aeronautical income increased 12.5% to £661.1 million (2011: £587.9 million). Average aeronautical income per passenger increased 11.5% to £15.83 (2011: £14.20).

Aeronautical income by airport

Six months ended 30 June	**2012 £m**	2011 £m	Change (%)
Heathrow	**599.4**	528.7	13.4
Stansted	**61.7**	59.2	4.2
Total	**661.1**	587.9	12.5

At Heathrow, the growth primarily reflects the headline 12.2% and 12.7% increase in its tariffs from 1 April 2011 and 1 April 2012 respectively together with the growth in Heathrow's traffic. This has been partially offset by lower than expected yields particularly due to factors such as more quieter aircraft, fewer flights, more transfer passengers and lower contribution from aircraft parking charges than assumed when tariffs for the relevant regulatory years were determined. These factors led to aeronautical income being approximately £13 million lower than expected during the six months ended 30 June 2012. This shortfall (or yield dilution) will be recovered through the 'K factor' true-up mechanism in the years commencing 1 April 2013 and 1 April 2014.

At Stansted, with its year-on-year decline in traffic, growth in aeronautical income principally reflects the headline 6.33% and 6.83% increase in its tariffs from 1 April 2011 and 1 April 2012 respectively together with reduced tariff discounts.

2.2.2.2 Retail income

The Group's retail business has continued to perform encouragingly in the first half of 2012 with a robust underlying performance moderated in the reported results by one-off benefits at Heathrow of approximately £5 million in the second quarter of 2011 not repeated in 2012 (principally in car parking, duty and tax free and other retail income).

As a result, whilst reported retail income increased 3.0% to £254.0 million (2011: £246.7 million), on a like for like basis it increased by approximately 5%. In addition, year on year performance varied between the first and second quarters due to stronger traffic performance in the first quarter of 2012 than in the second quarter driven by the leap year effect and changes in the timing of Easter compared to 2011.

Reported net retail income ('NRI') per passenger increased 2.4% to £5.72 (2011: £5.59) in the six months ended 30 June 2012, with growth of 2.1% at Heathrow and 1.4% at Stansted. Taking into account the prior year adjustment outlined above, growth in the Group's NRI per passenger was around 4.5%.

Net retail income per passenger by airport(1)

Six months ended 30 June	**2012** **£**	2011 £	Change (%)
Heathrow	**6.10**	5.98	2.1
Stansted	**4.16**	4.10	1.4
Total	**5.72**	5.59	2.4

(1) These figures have been calculated using un-rounded passenger numbers and, in the case of the percentage changes, un-rounded net retail income per passenger figures

At Heathrow, retail income increased 4.4% to £216.7 million (2011: £207.5 million) and NRI per passenger increased 2.1% to £6.10 (2011: £5.98). The underlying growth in Heathrow's retail income of approximately 7% was broad based with duty and tax-free, airside specialist shops, bureaux de change, catering and car parking all performing robustly.

Heathrow's duty and tax-free and airside specialist shops continued to see increases in the underlying average spend of passengers purchasing items in the in-terminal retail facilities. This was driven by factors including an increased proportion of higher spending non-EU passengers, the major refurbishment of Terminal 3's airside specialist shops and the new walk through area in the World Duty Free store in Terminal 3. In airside specialist shops, trading was particularly buoyant in the luxury and fashion segments. There were signs in the latter part of the period of the weakening of the Euro versus Sterling causing some moderation in duty and tax-free's sales growth.

A strong performance in bureaux de change at Heathrow was due to a combination of increased passenger traffic and improvements in contract terms with business partners. Catering income grew well ahead of passenger growth due to rebalancing of the portfolio towards premium outlets, enhanced contractual terms and a general focus on speed and quality of service. Finally in car parking, income growth reflected both passenger and tariff increases as well as the success of initiatives to increase car park usage and yield.

Stansted's retail income declined 4.8% to £37.3 million (2011: £39.2 million). Whilst this was marginally above the decline in Stansted's passenger traffic, retail expenditure reduced to £3.4 million (2011: £4.2

million), resulting in NRI per passenger increasing 1.4% to £4.16 (2011: £4.10). On a per passenger basis airside specialist shops, advertising and catering showed increases, although this was partially offset by a decline in duty and tax free and bureaux de change. Car parking showed a decline in income due to both reduced usage and a decrease in the length of stay.

2.2.2.3 Other income

Income from activities other than aeronautical and retail increased 4.1% to £249.1 million (2011: £239.3 million). This partly reflects rail income increasing 6.5% to £57.6 million (2011: £54.1 million) due primarily to fare increases effective from 1 January 2012. Operational facilities and utilities income increased 8.5% to £83.9 million (2011: £77.3 million) due mainly to higher demand, increases in tariffs and a change in charging structure for electricity. Property rental income also increased 2.7% to £56.1 million (2011: £54.6 million). The remaining revenue streams included in other income declined 3.4%, principally due to the reduction in income from the remaining agreements with Gatwick to provide transitional services following its disposal in late 2009.

2.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the six months ended 30 June 2012, adjusted operating costs increased 8.1% to £609.0 million (2011: £563.4 million).

Six months ended 30 June	**2012 £m**	2011 £m	Change (%)
Employment costs	**182.6**	163.7	11.5
Maintenance expenditure	**80.2**	66.1	21.3
Utility costs	**56.5**	57.0	(0.9)
Rents and rates	**71.3**	63.0	13.2
General expenses	**125.3**	111.9	12.0
Retail expenditure	**15.1**	15.2	(0.7)
Intra-group charges/other	**78.0**	86.5	(9.8)
Total	**609.0**	563.4	8.1

The main drivers of the increased adjusted operating costs were higher employment costs, maintenance expenditure, rents and rates and general expenses.

Employment costs were up 11.5% reflecting principally budgeted pay rises and an increase in the defined benefit pension scheme service charge. The increase in maintenance expenditure was mainly due to the costs of the temporary Olympic terminal at Heathrow together with the impact of the adverse winter weather in early February 2012. Increases in rents and rates were driven primarily by the annual inflation linked increase in property rates as well as additional rateable property (such as Terminal 5C that opened in June 2011). The growth in general expenses reflected increases across a range of cost categories including air traffic control, ground transport, cleaning and Olympics. In the six months ended 30 June 2012, the Group incurred approximately £10.8 million in costs in relation to preparations for the role that Heathrow is playing as the main arrival and departure point for participants in the 2012 Olympic and Paralympic Games.

Appendix 2 provides an analysis of adjusted operating costs for Heathrow and Stansted.

2.2.4 Adjusted EBITDA

In the six months ended 30 June 2012, Adjusted EBITDA increased 8.8% to £555.2 million (2011: £510.5 million), resulting in an Adjusted EBITDA margin of 47.7% (2011: 47.5%).

The increase in Adjusted EBITDA from 2011 reflects the fact that increased aeronautical and retail income per passenger supported by marginally higher passenger traffic meant that turnover grew faster than adjusted operating costs. Year on year growth in Adjusted EBITDA moderated relative to the results for the three months ended 31 March 2012 primarily due to stronger traffic performance in the first quarter of 2012 than in the second quarter driven by the leap year effect and changes in the timing of Easter compared to 2011. In addition, the one-off benefit to retail income at Heathrow of approximately £5 million in the second quarter of 2011 impacted year on year performance (discussed in section 2.2.2.2). This moderation is currently expected to reverse in the rest of the year.

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 9.6% to £516.5 million (2011: £471.3 million). The significant increase in Heathrow's Adjusted EBITDA reflects the factors referred to above in relation to the growth in the Group's Adjusted EBITDA. Stansted's Adjusted EBITDA declined 1.3% to £38.7 million (2011: £39.2 million) due principally to higher aeronautical income being more than offset by reduced retail income and increased employment costs (including pension service charges) and general expenses.

2.2.5 Operating profit

The Group recorded an operating profit for the six months ended 30 June 2012 of £167.8 million (2011: £287.7 million). The difference between Adjusted EBITDA and operating profit results from £254.8 million in depreciation (2011: £234.4 million) and a £132.6 million exceptional charge (2011: £11.6 million credit). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

Six months ended 30 June	**2012** **£m**	2011 £m	Change (%)
Adjusted EBITDA	**555.2**	510.5	8.8
Depreciation – ordinary	**(254.8)**	(234.4)	8.7
Exceptional items – pensions	**(132.6)**	22.6	n/a
Exceptional items – impairment	**-**	(11.0)	n/a
Operating profit	**167.8**	287.7	(41.7)

2.2.6 Exceptional items (including impairment charges)

In the six months ended 30 June 2012, there was an exceptional £132.6 million pre-tax charge (2011: £11.6 million credit) to the profit and loss account. This reflected a non-cash pension related charge arising principally from the Group's share of the movement in the BAA Airports Limited defined benefit pension scheme from a surplus to a deficit. See section 2.4 for further discussion of the movement in the defined benefit pension scheme deficit.

2.2.7 Taxation

The tax credit for the six months ended 30 June 2012 results in an effective tax credit rate for the period of 107.5% (2011: 47.7%). This reflects a tax credit arising on ordinary activities of £44.5 million (2011: £106.8 million) and a tax credit of £10.2 million (2011: £12.0 million) due to the further reduction in the rate of corporation tax 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% (2011: 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 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.

2.3 Cash flow

2.3.1 Summary cash flow

Six months ended 30 June	**2012 £m**	2011 £m
Net cash inflow from operating activities	**535.0**	469.6
Net interest paid	**(215.0)**	(172.3)
Taxation – group relief paid	**(10.1)**	(15.9)
Cash flow after interest and tax	**309.9**	281.4
Net capital expenditure	**(553.5)**	(431.1)
Pension and other payments related to disposal of Gatwick airport	**(1.1)**	(4.5)
Dividends paid	**(415.0)**	-
Net cash outflow before use of liquid resources and financing	**(659.7)**	(154.2)
Management of liquid resources	**21.0**	(6.7)
Cancellation and restructuring of derivatives	**(12.1)**	(53.1)
Increase in amount owed to BAA (SH) plc	**228.5**	134.8
Movement in borrowings and other financing flows	**414.4**	75.7
Increase in cash	**(7.9)**	(3.5)

2.3.2 Cash flow from operating activities

Net cash inflow from operations in the six months ended 30 June 2012 increased 13.9% to £535.0 million (2011: £469.6 million) which compares with Adjusted EBITDA of £555.2 million (2011: £510.5 million). The conversion of Adjusted EBITDA to operating cash flow primarily reflects the cash contributions to the defined benefit pension scheme being in excess of the net service charge.

2.3.3 Capital expenditure

In the six months ended 30 June 2012, the cash flow impact of the Group's capital investment programme was £553.5 million (2011: £431.1 million) with £544.3 million at Heathrow (2011: £421.0 million) and £9.2 million at Stansted (2011: £10.1 million).

The most significant areas of capital expenditure at Heathrow were on the new main Terminal 2 building, the second phase of the satellite building for the new Terminal 2 and the new integrated baggage system for Terminal 3.

2.3.4 Restricted payments/dividends

In the six months ended 30 June 2012, there was a net £234.2 million of restricted payments made out of the Group. This amount was utilised to meet £20.2 million of interest payments on BAA (SH) plc's ('BAA (SH)') external debt financing and to make £214.0 million of distributions beyond BAA (SH) which, together with other cash within the BAA group, was utilised in repaying accrued interest on the toggle facility held at ADI Finance 1 Limited and making the first two quarterly dividend payments (totalling £120.0 million) to BAA's ultimate shareholders since it was acquired by the Ferrovial-led consortium in 2006.

A significant part of the distributions out of the Group were implemented by £415.0 million in dividend payments to BAA (SH) made in March 2012 and June 2012. Of this amount £201.0 million was lent back to the Group.

2.4 Pension scheme

At 30 June 2012, the BAA Airports Limited defined benefit pension scheme had a deficit of £89.9 million as measured under IAS 19, of which £80.1 million was attributable to the Group under the Group's shared services agreement with BAA Airports Limited. This compares with a scheme deficit of £103.3 million at 31 March 2012 of which £86.8 million was attributable to the Group. The slightly improved position is due principally to the impact of changes in forecast inflation rates. At 31 December 2011, the defined benefit pension scheme had a surplus of £38.7 million, of which £32.4 million was attributable to the Group.

2.5 Recent financing activity

The Group's financing position has been transformed in 2012 with over £3 billion raised in multiple capital markets transactions and the successful completion of the refinancing of the Group's core revolving credit and liquidity facilities. This has enabled the full repayment of all the loan facilities put in place in the 2008 refinancing and put the Group in its strongest liquidity position for many years with sufficient resources to meet its financial obligations until at least the end of 2014.

The Group has completed an extensive range of capital markets transactions during 2012 raising £3.1 billion to date in eleven transactions across a range of currencies, ratings 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 Class A transactions included a €700 million five year bond, a £95 million (£120 million proceeds) tap of the existing 2039 index-linked bond, a £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.

In June 2012, the Group completed the refinancing of its revolving credit and liquidity facilities. The new facilities were heavily oversubscribed with approximately £4 billion of commitments from 17 existing and new relationship banks from the UK and across the globe. This strong support enabled the size of the new facilities to be increased to £2.75 billion. They comprise a £2.0 billion revolving credit facility (split £1.5 billion Class A general purposes facility; £400 million Class B general purposes facility; and £100 million Class A working capital facility); and £750 million standby liquidity facilities.

The new facilities all have a 5 year term, maturing in June 2017, and replace similar facilities that were due to mature in August 2013. The Class A and B tranches of the revolving credit facility carry margins of 150 basis points and 225 basis points respectively.

At the time of the refinancing, the £427.1 million drawn amount under the Group's previous revolving capital expenditure facility was kept outstanding but was reduced to £108.8 million by 30 June 2012 utilising proceeds from the US dollar bond referred to above and then fully repaid since the period end utilising part of the proceeds from the Canadian dollar bond referred to above.

Other financing activity in 2012 to date has included the repayment of a €1,000 million bond in February 2012, the prepayment of £400 million of the Class B term loan facility and BAA (SH) increasing its eight year loan facility from £50 million to £77.5 million.

Elsewhere in the BAA group, the terms of the toggle facility held at ADI Finance 1 Limited were amended in April 2012 such that it now has a fixed 7 year maturity rather than being perpetual in nature and the margin on the facility increased slightly, from 6.89% to 7.00%. In addition, reflecting the increased financial strength of the BAA group, the previous flexibility to accrue rather than pay interest as it falls due was dropped. These changes were accompanied by BAA being given enhanced flexibility to distribute cash beyond ADI Finance 1 Limited to its ultimate shareholders.

With the Group's successful capital raising during 2012 to date, the pace of financing activity is expected to moderate significantly in the near term, with capital markets issuance likely to be limited in the remainder of 2012.

2.6 Financing position

2.6.1 Consolidated net debt and liquidity at BAA (SP) Limited

The analysis below focuses on the Group's external debt and excludes the debenture between BAA (SP) and its parent company, BAA (SH). It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

During the six months ended 30 June 2012, the Group's nominal net debt increased 5.6% from £10,442.6 million to £11,031.7 million. The increase in net debt primarily reflects three factors: funding of capital investment at Heathrow; use of surplus cash flow previously retained in the Group to make the restricted payments referred to in section 2.3.4; and accretion on the Group's index-linked swaps and bonds.

The Group's nominal net debt at 30 June 2012 comprised £9,979.8 million outstanding under bond issues, £108.8 million outstanding under the Group's previous revolving capital expenditure facility (fully repaid subsequent to the period end utilising part of the proceeds of the Group's recent Canadian dollar bond issue), £499.1 million outstanding under other loan facilities, £448.2 million in index-linked derivative accretion and cash at bank and term deposits of £4.2 million (compared with cash and current asset investments of £4.3 million shown on the balance sheet). Nominal net debt comprised £9,406.7 million in senior (Class A) net debt and £1,625.0 million in junior (Class B) debt.

The accounting value of the Group's net debt at 30 June 2012 was £10,537.8 million (31 December 2011: £10,254.4 million).

The average cost of the Group's external gross debt at 30 June 2012 was 4.51% (31 December 2011: 4.17%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 30 June 2012 was 6.46% (31 December 2011: 6.45%). The increase in the average cost of debt is the result of a number of factors including increases in the proportion of fixed rate debt and Class B debt.

2.6.2 Consolidated net debt at BAA (SH) plc

Taking into account the Group's nominal net debt discussed in section 2.6.1, together with £577.5 million of gross debt and £2.4 million of cash held at BAA (SH), BAA (SH)'s consolidated net debt at 30 June 2012 was £11,606.8 million, an increase of 5.6% from £10,992.2 million at 31 December 2011.

2.6.3 Regulatory Asset Base ('RAB')

Set out below are RAB figures for Heathrow and Stansted at 31 December 2011 and 30 June 2012. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	**Stansted £m**	**Total £m**
31 December 2011	12,490.2	1,359.5	13,849.7
30 June 2012	12,904.2	1,349.5	14,253.7

The increase in the total RAB during the six months ended 30 June 2012 reflected the addition of approximately £565 million in capital expenditure; indexation adjustment of around £140 million; offset by regulatory depreciation of around £295 million; RAB profiling adjustments of around £5 million and a modest amount of disposals.

2.6.4 Net interest payable and net interest paid

In the six months ended 30 June 2012, the Group's net interest payable was £370.7 million (2011: £393.0 million) excluding fair value gains on financial instruments. Underlying interest payable was £384.8 million (2011: £379.9 million), after adjusting for £38.8 million (2011: £14.8 million) in capitalised interest and £24.7 million (2011: £27.9 million) in non-cash amortisation of financing fees and bond fair value adjustments. The marginally increased underlying interest payable relative to the comparable period in

2011 is due to the overall increase in net debt and the increase in the average cost of debt, both referred to in section 2.6.1, offset by lower accretion and interest charges on index-linked swaps.

Within interest payable is also recorded a non-cash net fair value gain on financial instruments of £152.0 million (2011: £143.9 million loss).

Net interest paid in the six months ended 30 June 2012 was £215.0 million (2011: £172.3 million). This consisted of £194.8 million (2011: £155.1 million) paid in relation to external debt and £20.2 million (2011: £17.2 million) under the debenture between BAA (SP) and BAA (SH). The increase in net interest paid is due primarily to the overall increase in net debt and the increase in the average cost of debt.

The difference between net interest paid and net interest payable is largely accounted for by: an amortisation charge of £28.0 million (2011: £33.9 million) in net interest payable relating to prepayments of derivative interest made in earlier periods; £106.2 million (2011: £128.3 million) non-cash accretion on index-linked instruments; the non-cash amortisation of financing fees and bond fair value adjustments and movement in interest accruals; partially offset by capitalised interest.

2.6.5 Financial ratios

The Group and BAA (SH) continue to operate comfortably within required financial ratios.

At 30 June 2012, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 66.0% and 77.4% respectively (31 December 2011: 68.0% and 75.4% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. BAA (SH)'s gearing ratio was 81.4% (31 December 2011: 79.4%) compared to a covenant level of 90.0% under its financing agreements. The increase in the Group's junior gearing ratio and BAA (SH)'s gearing ratio since 31 December 2011 is due to the increase in net debt described in 2.6.1.

2.7 Outlook

The Group has continued its strong operational and financial performance since the beginning of 2012. As a result, it expects turnover and Adjusted EBITDA for 2012 as a whole to be consistent with the forecasts set out in the investor report issued in June 2012 at approximately £2.5 billion and £1.27 billion respectively.

Appendix 1 – Financial information

BAA (SP) Limited

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

	Note	**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*	**1,164.2**	1,073.9	2,280.0
Operating costs – ordinary		**(863.8)**	(797.8)	(1,656.8)
Operating (costs)/gain – exceptional: pensions	*2*	**(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	*1*	**167.8**	287.7	572.1
Gain on disposal of Gatwick airport – discontinued operations	*2*	-	-	7.9
Interest receivable and similar income	*3*	**123.2**	106.4	220.4
Interest payable and similar charges	*3*	**(493.9)**	(499.4)	(1,010.3)
Fair value gain/(loss) on financial instruments	*3*	**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	*4*	**54.7**	118.8	64.3
Profit/(loss) on ordinary activities after taxation		**3.8**	(130.4)	(191.5)

BAA (SP) Limited

Consolidated balance sheet
as at 30 June 2012

	Note	**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		**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	*5*	**(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	*5*	**(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 (liabilities)/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	*6*	**3,455.8**	3,234.9	3,149.0
Total shareholder’s (deficit)/funds		**(194.8)**	499.3	241.5

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BAA (SP) Limited

Consolidated summary cash flow statement for the six months ended 30 June 2012

	Note	**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
Adjustments for:				
Depreciation (including impairment)		**254.8**	245.4	519.9
Gain on disposal of tangible fixed assets		**(0.5)**	(0.2)	(0.3)
Working capital changes:				
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	*6*	**(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	*5*	**2,834.8**	1,507.9	1,507.9
Repayment of bonds	*5*	**(680.2)**	-	-
(Repayment)/drawdown of capital expenditure facility	*5*	**(1,286.2)**	(250.0)	95.0
Repayment of facilities and other items	*5*	**(454.0)**	(1,167.2)	(1,339.8)
Increase in amount owed to BAA (SH) plc	*5, 6*	**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 financing		**630.8**	157.4	165.5
(Decrease)/increase in cash		**(7.9)**	(3.5)	6.1

BAA (SP) Limited

General information and accounting policies

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2011 or any other period. Statutory financial statements for the year ended 31 December 2011 have been filed with the Registrar of Companies on 28 February 2012. The annual financial information presented herein for the year ended 31 December 2011 is based on, and is consistent with, the audited consolidated financial statements of the BAA (SP) Limited group (the 'Group') for the year ended 31 December 2011. The auditors' report on the 2011 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

The consolidated financial statements of BAA (SP) Limited have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments, in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2011 with the exception of tax accounting (see note 4) which is in accordance with the United Kingdom Accounting Standards Board's Statement : 'Half-Yearly Financial Reports'.

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BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2012

1 Segment information

The Group's primary reporting format is business segments. The operating businesses are primarily the individual airports, which are organised and managed separately. All turnover originated in the UK.

Turnover	**Unaudited Six months ended 30 June 2012 £m**	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011 £m
Heathrow	**1,052.0**	963.8	2,045.6
Stansted	**112.2**	110.1	234.4
Total	**1,164.2**	1,073.9	2,280.0

Operating profit/(loss)	**Unaudited Six months ended 30 June 2012 £m**	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011 £m
Heathrow	**169.1**	262.3	526.8
Stansted	**(4.1)**	22.5	39.4
Other entities and adjustments[1]	**2.8**	2.9	5.9
Total	**167.8**	287.7	572.1

Net assets	**Unaudited 30 June 2012 £m**	Unaudited 30 June 2011 £m	Audited 31 December 2011 £m
Heathrow	**1,446.4**	1,664.8	1,452.0
Stansted	**875.4**	938.5	887.6
Other entities and adjustments[1]	**(2,516.6)**	(2,104.0)	(2,098.1)
Total	**(194.8)**	499.3	241.5

[1] The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and the parent company BAA (SP) Limited.

Reconciliation of Adjusted EBITDA and operating profit

Adjusted EBITDA has been used to provide a clearer indication of the performance of the individual airports and to assist better comparison with the prior period. Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.

Unaudited Six months ended 30 June 2012	**Adjusted EBITDA £m**	**Operating exceptional items £m**	**Depreciation[1] £m**	**Operating profit/(loss) £m**
Heathrow	**513.5**	**(109.9)**	**(234.5)**	**169.1**
Stansted	**38.7**	**(22.5)**	**(20.3)**	**(4.1)**
Other entities and adjustments[2]	**3.0**	**(0.2)**	**-**	**2.8**
Total	**555.2**	**(132.6)**	**(254.8)**	**167.8**

Unaudited Six months ended 30 June 2011	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation[1] £m	Operating profit £m
Heathrow	468.3	8.0	(214.0)	262.3
Stansted	39.2	3.7	(20.4)	22.5
Other entities and adjustments[2]	3.0	(0.1)	-	2.9
Total	510.5	11.6	(234.4)	287.7

Audited Year ended 31 December 2011	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation[1] £m	Operating profit £m
Heathrow	1,039.2	(44.1)	(468.3)	526.8
Stansted	87.0	(7.1)	(40.5)	39.4
Other entities and adjustments[2]	5.9	0.1	(0.1)	5.9
Total	1,132.1	(51.1)	(508.9)	572.1

[1] Depreciation excluding impairment which is included within operating exceptional items.
[2] The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, BAA Funding Limited, BAA (AH) Limited and the parent company BAA (SP) Limited.

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BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2012

2 Operating and non-operating exceptional items

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011 £m
Operating costs – exceptional: pension			
Pension (charge)/credit	**(132.6)**	22.6	(40.3)
Operating costs – exceptional: other			
Impairment	-	(11.0)	(11.0)
Reorganisation credit	-	-	0.2
Total operating exceptional items – continuing	**(132.6)**	11.6	(51.1)
Gain on disposal of Gatwick airport – discontinued operations	**-**	-	7.9
Total non-operating exceptional items	**-**	-	7.9
Taxation on exceptional items	**31.8**	(5.9)	10.0
Total exceptional items after tax	**(100.8)**	5.7	(33.2)

Operating costs – exceptional: pension
Under the Shared Services Agreement ('SSA') the current period service cost for the BAA Limited group ('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 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.

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.

Non-operating exceptional items
During the second half of 2011, £7.9 million excess provisions for Gatwick disposal costs were released to the profit and loss account. This related to costs expected to be associated with the disposal including legal fees and other separation costs.

BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2012

3 Net interest payable and similar charges

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Audited Year ended 31 December 2011 £m
Interest receivable and similar income			
Interest receivable on derivatives not in hedge relationship	**123.1**	106.3	220.0
Interest on bank deposits	**0.1**	0.1	0.4
	123.2	106.4	220.4
Interest payable and similar charges			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(272.1)**	(214.5)	(462.2)
Bank loans and overdrafts and related hedging instruments	**(65.7)**	(85.1)	(157.6)
Interest payable on derivatives not in hedge relationship[2]	**(157.9)**	(177.8)	(347.4)
Facility fees and other charges	**(11.8)**	(11.5)	(23.3)
Interest on debenture payable to BAA (SH) plc	**(25.2)**	(25.3)	(46.9)
	(532.7)	(514.2)	(1,037.4)
Less capitalised interest[3]	**38.8**	14.8	27.1
	(493.9)	(499.4)	(1,010.3)
Net interest payable before fair value loss	**(370.7)**	(393.0)	(789.9)
Fair value gain/(loss) on financial instruments			
Interest rate swaps: cash flow hedge[4]	**2.6**	6.7	3.1
Index-linked swaps: not in hedge relationship[5]	**144.0**	(161.5)	(88.7)
Cross-currency swaps: cash flow hedge[4]	**1.2**	3.0	12.2
Cross-currency swaps: fair value hedge[4]	**4.4**	7.8	30.8
Fair value re-measurements of foreign exchange contracts and currency balances	**(0.2)**	0.1	(3.3)
	152.0	(143.9)	(45.9)
Net interest payable and similar charges	**(218.7)**	(536.9)	(835.8)

1 Includes accretion of £7.2 million (six months ended 30 June 2011: £7.5 million; year ended 31 December 2011: £15.4 million) on index-linked bonds.
2 Includes accretion of £99.0 million (six months ended 30 June 2011: £120.8 million; year ended 31 December 2011: £231.8 million) on index-linked swaps.
3 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 3.39% (six months ended 30 June 2011: 2.27%; year ended 31 December 2011: 2.08%) to expenditure incurred on such assets. Following the significant refinancing activity for the Group in the first half of 2012, the Group has reassessed the applicable pool of general borrowing costs upon which interest has been capitalised. This has led to an increase in the capitalised interest rate in the first half to 3.39% compared to 31 December 2011 and 30 June 2011.
4 Hedge ineffectiveness on derivatives in hedge relationship.
5 Reflects the impact on the valuation of movements in implied future inflation and interest rates.

BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2012

4 Tax 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

BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2012

5 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £39.1 million and £nil respectively (30 June 2011: £928.1 million and £nil respectively; 31 December 2011: £871.7 million and £nil respectively).

Within Creditors: amounts falling due after more than one year are borrowings and financial derivatives of £11,329.1 million and £1,115.2 million respectively (30 June 2011: £9,940.9 million and £812.7 million respectively; 31 December 2011: £10,013.5 million and £1,081.6 million respectively).

	Unaudited 30 June 2012 £m	Unaudited 30 June 2011 £m	Audited 31 December 2011 £m
Current borrowings			
Secured			
Bank loans	**39.1**	39.1	39.1
Bonds:			
3.975% €1,000 million due 2012	**-**	889.0	832.6
Total current borrowings	**39.1**	928.1	871.7
Non-current borrowings			
Secured			
Syndicated term facility	**-**	151.7	-
Capital expenditure facility	**108.8**	1,050.0	1,395.0
Other bank loans	**456.2**	887.9	870.0
	565.0	2,089.6	2,265.0
Secured			
Bonds:			
5.850% £400 million due 2013	**385.6**	376.8	379.9
4.600% €750 million due 2014	**560.8**	614.1	588.8
3.000% £300 million due 2015	**298.6**	-	-
2.500% US$500 million due 2015	**317.8**	-	-
12.450% £300 million due 2016	**350.6**	361.9	356.3
4.125% €500 million due 2016	**386.0**	432.2	398.5
4.375% €700 million due 2017	**561.9**	-	-
2.500% CHF400 million due 2017	**267.1**	-	-
4.600% €750 million due 2018	**542.6**	606.2	559.8
6.250% £400 million due 2018	**395.7**	397.0	397.1
6.000% £400 million due 2020	**395.6**	-	-
9.200% £250 million due 2021	**278.5**	281.7	280.6
4.875% US$1,000 million due 2021	**692.6**	586.6	683.3
1.650%+RPI £180 million due 2022	**181.0**	-	-
5.225% £750 million due 2023	**628.6**	621.3	624.9
7.125% £600 million due 2024	**587.4**	-	-
6.750% £700 million due 2026	**690.0**	689.6	689.8
7.075% £200 million due 2028	**197.5**	197.5	197.5
6.450% £900 million due 2031	**853.1**	840.1	840.8
Zero-coupon €50 million due January 2032	**41.0**	-	-
Zero-coupon €50 million due April 2032	**40.7**	-	-
3.334%+RPI £460 million due 2039[1] (30 June 2011: £365 million, 31 December 2011: £365 million)	**540.6**	408.5	416.3
5.875% £750 million due 2041	**744.7**	737.2	737.3
	9,938.0	7,150.7	7,150.9
Unsecured			
BAA (SP) Limited debenture payable to BAA (SH) plc	**826.1**	700.6	597.6
Total non-current borrowings	**11,329.1**	9,940.9	10,013.5
Total borrowings	**11,368.2**	10,869.0	10,885.2

[1] The existing index-linked bond was re-opened, generating proceeds of £118.6 million in March 2012 and £154.3 million in May 2011.

6 Dividends

During the period ended 30 June 2012, the Group paid dividends of £415.0 million, being £20.0 million on 21 June 2012 and £395.0 million on 15 March 2012, to BAA (SH) plc. The dividend paid of £395.0 million resulted in the Group's debenture payable to BAA (SH) plc to increase by £201.0 million giving a net cash outflow for the Group of £194.0 million.

During the year ended 31 December 2011, the Group paid a dividend of £24.8 million. The dividend was paid on 10 August 2011.

Appendix 2

Analysis of turnover and operating costs for the six months ended 30 June 2012

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	599.4	-	599.4	61.7	**661.1**
Retail income	216.7	-	216.7	37.3	**254.0**
Car parking	40.5	-	40.5	15.1	55.6
Duty and tax-free	56.0	-	56.0	4.9	60.9
Airside specialist shops	43.9	-	43.9	3.2	47.1
Bureaux de change	20.6	-	20.6	3.6	24.2
Catering	18.1	-	18.1	4.5	22.6
Landside shops and bookshops	10.1	-	10.1	2.1	12.2
Advertising	13.5	-	13.5	1.2	14.7
Car rental	6.1	-	6.1	1.1	7.2
Other	7.9	-	7.9	1.6	9.5
Operational facilities and utilities income	78.9	-	78.9	5.0	**83.9**
Property rental income	51.5	-	51.5	4.6	**56.1**
Rail income	57.6	-	57.6	-	**57.6**
Other income	44.9	-	44.9	3.6	**48.5**
HEX inter-company elimination	(29.7)	32.7	**3.0**	-	**3.0**
Total income	1,019.3	32.7	**1,052.0**	112.2	**1,164.2**
Operating costs					
Employment costs	143.6	11.1	**154.7**	27.9	**182.6**
Maintenance expenditure	66.3	8.2	**74.5**	5.7	**80.2**
Utility costs	45.3	1.2	**46.5**	10.0	**56.5**
Rents and rates	62.6	0.7	**63.3**	8.0	**71.3**
General expenses	103.2	7.3	**110.5**	14.8	**125.3**
Retail expenditure	11.7	-	**11.7**	3.4	**15.1**
Intra-group charges/other	106.3	1.2	**107.5**	3.7	**111.2**
Gain on disposal of fixed assets	(0.5)	-	**(0.5)**	-	**(0.5)**
HEX inter-company elimination	(32.7)	-	**(32.7)**	-	**(32.7)**
Adjusted operating costs	505.8	29.7	**535.5**	73.5	**609.0**
Depreciation	234.5	-	**234.5**	20.3	**254.8**
Exceptional items	109.9	0.2	**110.1**	22.5	**132.6**
Total operating costs	850.2	29.9	**880.1**	116.3	**996.4**
Adjusted EBITDA	513.5	3.0	**516.5**	38.7	**555.2**

Analysis of turnover and operating costs for the six months ended 30 June 2011

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	528.7	-	**528.7**	59.2	**587.9**
Retail income	207.5	-	**207.5**	39.2	**246.7**
Car parking	39.5	-	**39.5**	16.5	56.0
Duty and tax-free	52.5	-	**52.5**	5.3	57.8
Airside specialist shops	39.2	-	**39.2**	3.3	42.5
Bureaux de change	18.8	-	**18.8**	3.9	22.7
Catering	17.3	-	**17.3**	4.5	21.8
Landside shops and bookshops	10.0	-	**10.0**	2.2	12.2
Advertising	13.8	-	**13.8**	1.1	14.9
Car rental	6.1	-	**6.1**	1.1	7.2
Other	10.3	-	**10.3**	1.3	11.6
Operational facilities and utilities income	72.7	-	**72.7**	4.6	**77.3**
Property rental income	50.5	-	**50.5**	4.1	**54.6**
Rail income	54.1	-	**54.1**	-	**54.1**
Other income	47.3	-	**47.3**	3.0	**50.3**
HEX inter-company elimination	(28.6)	31.6	**3.0**	-	**3.0**
Total income	932.2	31.6	**963.8**	110.1	**1,073.9**
Operating costs					
Employment costs	126.7	10.6	**137.3**	26.4	**163.7**
Maintenance expenditure	52.7	8.3	**61.0**	5.1	**66.1**
Utility costs	46.1	1.1	**47.2**	9.8	**57.0**
Rents and rates	55.2	0.4	**55.6**	7.4	**63.0**
General expenses	91.7	7.1	**98.8**	13.1	**111.9**
Retail expenditure	11.0	-	**11.0**	4.2	**15.2**
Intra-group charges/other	112.2	1.1	**113.3**	5.0	**118.3**
Gain on disposal of fixed assets	(0.1)	-	**(0.1)**	(0.1)	**(0.2)**
HEX inter-company elimination	(31.6)	-	**(31.6)**	-	**(31.6)**
Adjusted operating costs	463.9	28.6	**492.5**	70.9	**563.4**
Depreciation	214.0	-	**214.0**	20.4	**234.4**
Exceptional items	(8.0)	0.1	**(7.9)**	(3.7)	**(11.6)**
Total operating costs	669.9	28.7	**698.6**	87.6	**786.2**
Adjusted EBITDA	468.3	3.0	**471.3**	39.2	**510.5**