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News Release

22 February 2012

BAA (SP) Limited

Results for the year ended 31 December 2011

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 operating at full capacity as it achieves record annual traffic**
- **87.4 million passengers at Heathrow and Stansted with 2% underlying growth at Heathrow**
- **Strong service performance with highest ever passenger satisfaction at Heathrow**
- **Revenue up 9.9% reflecting higher tariffs and continued strong retail performance**
- **Adjusted EBITDA up 17.1% enabling continued significant Heathrow capital investment**
- **Further increase in profitability and investment anticipated in 2012**
- **Capital structure strengthened with £3 billion in new financing raised in last 12 months**
- **New £2 billion Terminal 2 to deliver further state of the art facilities from 2014**

At or for year ended 31 December	**2011**	2010	Change (%)
(figures in £m unless otherwise stated)			
Revenue	**2,280.0**	2,074.3	9.9
Adjusted EBITDA(1)	**1,132.1**	966.9	17.1
Cash generated from operations	**1,132.2**	918.5	23.3
Adjusted pre-tax loss(2)	**(166.7)**	(206.2)	(19.2)
Pre-tax loss	**(255.8)**	(316.6)	(19.2)
BAA (SP) Limited consolidated net debt(3)	**10,442.6**	9,921.2	5.3
BAA (SH) plc consolidated net debt(3)	**10,992.2**	10,401.1	5.7
Regulatory Asset Base	**13,849.7**	12,776.0	8.4
Passengers (m)(4)	**87.4**	84.3	3.7
Net retail income per passenger(4)(5)	**£5.58**	£5.29	5.5

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(2) Adjusted pre-tax loss is before exceptional items, gain on disposal of Gatwick airport, impairment of fixed assets and fair value adjustments
(3) Nominal net debt for ratio purposes, excluding intra-BAA group loans and including inflation-linked accretion
(4) Changes in passengers and net retail income per passenger are calculated using unrounded data
(5) See section 2.2.2.2 for calculation of net retail income per passenger

Colin Matthews, Chief Executive Officer of BAA, said:

"BAA delivered a strong operational performance in 2011 with record traffic levels and high service standards at Heathrow. Last year saw Heathrow's best punctuality performance in over a decade and the international Airport Service Quality passenger survey showed that 70% of Heathrow's passengers rated their experience as 'Excellent' or 'Very Good', compared with just 41% when the Ferrovial-led consortium bought BAA in 2006. We continued to invest significantly in further improving our airports during 2011, particularly on the new Heathrow Terminal 2.

"The group's financial position has been strengthened with £3 billion in new financing completed in the last 12 months and we have fully repaid our £4.4 billion bank bridge loan nearly two years early.

"We are pleased that the UK Government recognised the importance of a successful hub airport to UK economic growth in its Autumn statement. All potential solutions to the UK's lack of hub airport capacity have their pros and cons and all should be on the table to ensure the right solution is found for both the short and long term."

For further information please contact

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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 year ended 31 December 2011. The call will be hosted by Colin Matthews and Jose 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: 1631 510 7490; UK local/standard international: +44 (0) 3140 0668. Participant PIN code is 664023#. It will also be possible to view online the presentation (using event password: 382479) as it is used during the call at:

https://arkadin-event.webex.com/arkadin-event/onstage/g.php?t=a&d=702792661

BAA (SP) Limited

Consolidated results for the year ended 31 December 2011

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1 Key business developments

1.1 Key features of the year

2011 was a successful year for the Group with an overall recovery in traffic, including record traffic for Heathrow, and improvements in service standards. These factors, combined with higher tariffs at Heathrow, robust retail performance and continued cost control, enabled the Group to deliver a strong financial performance despite a challenging macro-economic background. This robust performance enabled the Group to continue investing in enhancing its airport infrastructure, particularly at Heathrow.

Heathrow, the Group's largest airport, enjoyed a strong year including achieving an all time annual traffic record of 69.4 million passengers compared with the previous record of 67.9 million set in 2007. Heathrow also used a record 99.2% of its maximum permitted annual arrivals and departures in 2011. This means the airport is effectively operating at full capacity, preventing airlines from developing new routes from the UK to emerging market destinations such as Manila, Shenzhen and Jakarta.

There have recently been signs of the UK government acknowledging the problem. Ministers are shortly to consult on the future of UK aviation including specifically the issue of hub capacity constraints. At this time a third runway at Heathrow is not one of the options being considered. However, an increasing number of aviation stakeholders and commentators believe that all options for increasing aviation hub capacity should be considered and that both short and long term solutions must be developed.

Heathrow also maintained its recent momentum in improving important operational metrics. This included delivering its best punctuality performance in over a decade and achieving its highest ever overall passenger satisfaction. In addition, the airport's ability to respond to adverse weather and other disruptions has been significantly enhanced as a result of progress in implementing the recommendations of the Begg Report produced following the disruption caused by winter weather in December 2010.

The Group continued significant investment at Heathrow with good progress made in constructing the new Terminal 2 which will be Heathrow's second new terminal in recent years. Nearly £950 million was invested in 2011, including over £900 million at Heathrow. The superstructure of the new Terminal 2 building was substantially complete by the end of 2011 and the next two years will be spent fitting out the new facility and undertaking operational readiness activities prior to operations commencing during 2014.

The Group has continued to challenge the Competition Commission's ('CC') requirement that it must sell Stansted airport. BAA issued proceedings at the Competition Appeal Tribunal ('CAT') for the judicial review of the CC's decision regarding material changes in circumstances since the CC's report of March 2009. The hearing to consider the case was held in December 2011 and in February 2012 the CAT rejected BAA's request. BAA is currently considering its position in light of the CAT's decision.

During the year, Heathrow's current regulatory period was extended by one year to 31 March 2014 (which was already the end date for Stansted's current regulatory period) to provide more time for new legislation related to the economic regulation of UK airports to be implemented and then utilised in establishing the terms of the next regulatory settlement for the Group's airports. The draft Civil Aviation Bill was published in late 2011 and introduced into Parliament in early 2012.

Further progress has been made in strengthening the Group's capital structure through a number of financings that have raised approximately £3 billion in the last 12 months. The highlight was the inaugural US$1 billion bond issue completed in June 2011. This has enabled BAA to decide in principle to commence paying dividends to its ultimate shareholders in 2012 for the first time since it was acquired by the Ferrovial-led consortium in 2006.

1.2 Passenger traffic

Passenger traffic for the year ended 31 December 2011 at the Group's airports is analysed below:

(figures in millions unless otherwise stated)	**2011**	2010	Change (%)[1]
Passengers by airport			
Heathrow	**69.4**	65.7	5.5
Stansted	**18.0**	18.6	(2.8)
Total passengers[1]	**87.4**	84.3	3.7
Passengers by market served			
UK	**6.2**	6.6	(6.3)
Europe[2]	**44.5**	42.8	4.0
Long haul	**36.8**	35.0	5.2
Total passengers[1]	**87.4**	84.3	3.7

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

In the year ended 31 December 2011, the Group's passenger traffic increased 3.7% to 87.4 million (2010: 84.3 million), with Heathrow's traffic up 5.5% to an all time annual record of 69.4 million passengers. Reported year on year performance partly reflects no recurrence of the exceptional events in 2010 being closure of airspace due to volcanic ash, airline industrial action affecting Heathrow and severe winter weather. Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events are estimated to have resulted in the loss of up to a total of 2.8 million passengers. Adjusting for these factors, the Group's traffic is estimated to have increased by at least 0.4% in 2011.

In achieving an all time annual traffic record, Heathrow reported eight monthly records with July being its busiest month in history. Adjusting for 2010's disruptions outlined above, which resulted in Heathrow losing up to 2.4 million passengers, its traffic is estimated to have increased by at least 1.9% in 2011.

Heathrow's performance reflects its position as a major European hub and its broad international links in both European and long haul markets. Growth was particularly strong with countries such as the United States, Germany, Switzerland, France and Brazil. Of Heathrow's major markets, European traffic showed the most significant year on year growth, increasing 7.6% to 28.5 million passengers (2010: 26.5 million). North Atlantic traffic also performed robustly, increasing 7.5% to 15.8 million passengers (2010: 14.7 million) driven by the success of American Airlines' and British Airways' joint transatlantic services launched in March 2011 and new routes introduced by Delta Air Lines. However, Heathrow's domestic traffic lagged the airport's overall performance, declining 2.9% to 4.7 million passengers (2010: 4.8 million) largely reflecting cessation of bmi's Glasgow service.

The proportion of origin and destination traffic at Heathrow remained constant in 2011 versus 2010 at 65%. Heathrow also operated 99.2% of its maximum allowed 480,000 annual arrivals and departures meaning it effectively operated at full capacity. At the same time it also experienced the highest ever load factor on aircraft operating to and from the airport of 75.2% (2010: 75.1%).

Stansted's traffic declined 2.8% to 18.0 million passengers (2010: 18.6 million). This reflects no recurrence of the volcanic ash and severe winter weather disruptions in 2010 that resulted in the loss of approximately 0.4 million passengers. Adjusting for this, Stansted's traffic declined 5.0%, reflecting airlines' redeployment of capacity from the UK to other European markets. Much of the decline was in the domestic market, which declined 15.8% principally due to cessation of services to Belfast and Newcastle. Excluding the domestic market, traffic was down only 1.5% to 16.6 million passengers (2010: 16.8 million). Further, Stansted experienced record load factors through most of 2011 (80.8% compared to 78.8% in 2010) whilst traffic has been declining, suggesting gradually more positive demand dynamics.

1.3 Transforming the Group's airports

The Group has continued to implement its strategy to improve passengers' experience and airlines' operations through sustained substantial investment in modern airport facilities and improved service standards. This will ensure customers enjoy superior facilities relative to competitors, encouraging greater utilisation of the Group's airports and supporting their long-term growth ambitions.

Heathrow is the third largest airport in the world and the largest globally for international traffic, with 7 of the top 10 long haul intercontinental routes passing through the airport. Reflecting this pivotal market position, the Group's key strategic objective is to enhance Heathrow's leading position in the global aviation industry and particularly its long-standing role as the UK's gateway to the world.

Substantial progress in delivering this objective is being made, with the UK's largest private sector investment programme rapidly transforming passengers' and airlines' experience of using Heathrow. Terminal 5 was the airport's first new terminal for over 20 years when it opened in 2008 and is now rated by passengers as the best airport terminal in Europe. It is the global hub of British Airways who have achieved significant efficiency gains from this world class facility.

Airlines strongly support continued significant investment in Heathrow to underpin its long term future. The current focus is on the construction of the new Terminal 2, which is due to open in 2014. Once open, around 70% of passengers using Heathrow will enjoy some of the newest airport facilities in the world.

Alongside the transformation of Heathrow's infrastructure, there has also been consistent improvement in service standards. Further clear progress was made during 2011, a particularly notable achievement given both record traffic volumes and the challenges of building the new Terminal 2 in the live operating environment of one of the world's largest airports. Most importantly, during 2011 Heathrow achieved its highest ever overall passenger satisfaction in the Airport Service Quality survey, consolidating its position in the top two of the five biggest European airports on this measure.

1.3.1 Investment in modern airport facilities

The Group's capital investment programme continues to be focused on the transformation of Heathrow. Significant milestones have been achieved in the last year with the main projects including construction work on Terminal 2 and baggage systems as well as completion of Terminal 5C. Over £900 million was invested at Heathrow in 2011 with over 50% of the spend relating to the new Terminal 2. The level of investment is expected to increase substantially over 2012 and 2013 as progress is made towards opening Terminal 2. This will support thousands of high value jobs over the next few years.

In relation to the new Terminal 2, at the beginning of 2011 the main terminal building consisted of a small part of its steel framework but rapid development means the terminal superstructure is now complete and the building weather-tight. This has enabled significant progress to be made on the terminal's interior including completion of the floor structures and installation of major mechanical and electrical equipment. Fit out of terminal systems is also underway including outbound baggage systems, escalators and travelators. Extensive work on the terminal's aircraft stands has included installation of fuel, drainage, water, electrical and communications services. Construction of the concrete pavement also commenced.

Significant progress was also made during 2011 on building the second phase of Terminal 2's satellite building (Terminal 2B) with construction of the extensive basement structures to house the tracked transit train and baggage systems. This will connect the satellite to the main building, once the main terminal's second phase is constructed. Construction of the satellite's steel framework commenced in 2011 with the northern section weather-tight by the end of the year and the southern section due to be completed in the coming months. The whole second phase of the satellite building is expected to be weather-tight in late 2012. During 2012 construction of the satellite's aircraft stands and taxiways is expected to commence.

Contracts were signed in March 2011 for the construction of Terminal 2's multi-storey car park and work on site commenced in May 2011. The first columns for the car park's arrivals and departures ramps have been constructed. Design work for the car park structure is complete.

Terminal 5C became operational in June 2011 providing Terminal 5 with an additional 12 pier served stands linked to the main Terminal 5 building by a tracked transit train system. One of the key benefits of Terminal 5C is to reduce the incidence of passengers having to be transported by bus between Terminal 5 and their aircraft and the proportion of aircraft operating from remote stands at Terminal 5 has reduced from nearly 20% prior to Terminal 5C's opening to just over 10% at the end of 2011.

In relation to Heathrow's baggage systems, 2011 saw the final stages of the construction and commissioning of the underground automated baggage transfer system between Terminals 3 and 5. Operational trials are currently taking place with full live operation of the facility expected shortly. Elsewhere in Heathrow's baggage investment programme, the most significant development during 2011 was the commencement of construction of a new integrated baggage system for Terminal 3.

Following the severe winter weather in December 2010, Heathrow completed nearly £20 million in capital investment in implementing the recommendations of the subsequent winter resilience enquiry. Amongst other things, this has enabled the airport to increase substantially the number of vehicles available for snow clearance. Further investment is expected relating to Heathrow's resilience in 2012, for example in relation to a new command and control centre.

At Stansted the modest investment was focused in areas such as security search process improvement, upgrade of the airport operating system and new air bridges.

1.3.2 Service standards

At Heathrow, the year saw strong performance across many key service areas and these improvements have been reflected in higher than ever passenger satisfaction scores in independent surveys. The absence in 2011 of the major weather related disruption seen in 2010 contributed to this performance, but there was also significant success in driving underlying improvements.

In relation to individual service standards, Heathrow achieved its highest annual departure punctuality, as measured by the proportion of aircraft departing within 15 minutes of schedule, in over a decade of 79% (2010: 71%). Other than less weather disruption, the performance reflects initiatives such as closer monitoring of performance with airlines and NATS, greater scrutiny of underperforming airlines, reducing flows in peak periods of the day, more resilient operating procedures in poor weather, improved co-ordination with other local airspace users and enhanced infrastructure flexibility following completion of Terminal 5C and additional taxiways capable of handling the largest aircraft such as the A380.

Heathrow's baggage misconnect rate improved to 15 bags per 1,000 passengers (2010: 18) during 2011 with its best ever monthly baggage misconnect performance in April (11 bags per 1,000 passengers) and consistently good performance across the year.

On security queuing, passengers passed through central security within the period prescribed under Heathrow's service quality rebate scheme 96.9% (2010: 97.5%) of the time compared with the 95.0% service standard. The service standard is measured monthly at an individual terminal level and there were two breaches in the year, both at Terminal 5 (in July and December), partly reflecting record traffic flows. Additional security lines are being introduced to mitigate the risk of this happening in future.

It is clear from independent surveys that passengers are noticing these improvements with Heathrow achieving in 2011 its highest ever overall passenger satisfaction (and 3 of its 4 highest ever scores) in the global Airport Service Quality survey (produced by Airports Council International). The average of its quarterly scores in this survey during 2011 was 3.88 (2010: 3.84). These results consolidate Heathrow's position in the top two of the five biggest European airports on this measure.

In July 2011, the South East Airports Taskforce, sponsored by the Department for Transport, recommended that consideration be given to Heathrow having greater operational freedom to prevent or mitigate disruption. For example, this might involve simultaneous use of both runways for arrivals and departures in such circumstances, within the existing overall cap on aircraft movements. An initial trial of runway use in this manner concludes in February 2012 with another trial expected during summer 2012.

If implemented permanently, such measures should improve areas such as punctuality and baggage misconnects as well as bringing environmental benefits such as reduced stacking.

Heathrow's ability to respond to adverse weather conditions and other disruptions has been significantly enhanced during 2011 as a result of progress on implementing the recommendations of the Begg Report produced following the disruption caused by winter weather in December 2010.

At Stansted, departure punctuality also improved significantly to 88% (2010: 78%). The strength of this performance is reflected by the fact that Stansted was recognised by FlightStats as the third best performing airport globally for departure punctuality during November 2011. In addition, passengers passed through central security within the period prescribed under its service quality rebate scheme 97.9% (2010: 98.2%) of the time compared with the 95.0% service standard. Stansted also won several notable international awards in 2011, including the Skytrax 'world's best low-cost airport' award.

1.4 Regulatory and governmental developments

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

There have been a number of developments in relation to the Competition Commission's ('CC') inquiry into the supply of UK airport services by BAA since the beginning of 2011. In February 2011, BAA was refused permission to appeal to the Supreme Court against the CC's March 2009 requirement that certain airports, including Stansted and either Edinburgh or Glasgow, be sold. In July 2011, the CC determined that there had been no material changes in circumstances that would give it cause to reconsider its March 2009 decision. In September 2011, BAA issued proceedings at the Competition Appeal Tribunal ('CAT') for the judicial review of the CC's decision regarding changes in circumstances. The hearing to consider the case was held in December 2011 and in February 2012 the CAT rejected BAA's request. BAA is currently considering its position in light of the CAT's decision.

Meanwhile, in October 2011, the CC decided to reverse the order of disposals so that the disposal of either Edinburgh or Glasgow would precede that of Stansted. As a result, BAA decided to sell Edinburgh airport and has commenced its disposal process.

1.4.2 UK aviation policy developments

On election in 2010, the new UK government ruled out the development of any new runways in South East England, an area with chronic airport capacity issues given Heathrow and Gatwick, the UK's two largest airports, are the world's busiest two runway and single runway airports respectively with Heathrow operating at 99.2% of its maximum permitted capacity in 2011. This has severely restricted route development to key emerging market destinations such as Manila, Shenzen and Jakarta.

Since the election, there has been increasing debate about the need for the UK economy to be rebalanced towards manufacturing and to focus on developing trade with faster growing emerging market economies that are increasingly the engine of global economic growth. In parallel, there has been greater recognition of the need to stimulate economic growth and job creation. Modernisation of the UK's transport infrastructure is seen as a key enabler and contributor to this process. In the context of the aviation sector, it is also increasingly accepted that the development of hub airport capacity, as uniquely provided by Heathrow, is the optimal way to ensure the UK enjoys the connectivity with emerging market economies that will support the UK's long-term economic prosperity.

There have recently been signs of the UK government acknowledging the airport capacity issue and seeking to improve connectivity with emerging markets. Ministers are shortly to begin a consultation on the future of aviation in the UK that is intended to address specifically the issue of hub airport capacity constraints. At this time a third runway at Heathrow is not one of the options being considered. However, an increasing number of stakeholders and commentators believe that all options for increasing aviation hub capacity should be considered and that both short and long term solutions must be developed.

1.4.3 Modernisation of economic regulation of UK airports

In March 2011, the Government confirmed its intention to implement reforms to the framework for the economic regulation of UK airports, as set out in its July 2010 statement, which largely built on proposals published by the Department for Transport in December 2009. Reflecting a desire that the terms of

Heathrow's next regulatory settlement are established using the new regulatory framework, following consultation with Heathrow and its airline community, the Civil Aviation Authority announced the extension of Heathrow's current regulatory period by one year from 31 March 2013 to 31 March 2014. During the one year extension, Heathrow's aeronautical tariffs will continue to be determined using the existing RPI+7.5% formula. In addition, Heathrow agreed with its airline community a cap on its capital programme for the extension year of £735 million (in 2007/08 prices).

In November 2011, the Government moved to the next stage in implementing the proposed new regulatory framework with publication of the draft Civil Aviation Bill for pre-legislative scrutiny including by the Transport Select Committee. The bill was introduced into Parliament on 19 January 2012.

2 Financial review

2.1 Basis of preparation

BAA (SP) Limited 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. Audited 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.

Year ended 31 December	**2011 £m**	2010 £m
Group turnover	**2,280.0**	2,074.3
Adjusted operating costs(1)	**(1,147.9)**	(1,107.4)
Adjusted EBITDA(2)	**1,132.1**	966.9
Exceptional items – pensions(3)	**(40.3)**	89.9
Exceptional items – other(3)	**0.2**	(12.7)
EBITDA	**1,092.0**	1,044.1
Depreciation – ordinary	**(508.9)**	(476.7)
Depreciation and impairment – exceptional(3)	**(11.0)**	(18.7)
Operating profit	**572.1**	548.7
Gain on disposal of Gatwick airport – discontinued operations(3)	**7.9**	16.2
Impairment of fixed assets – exceptional(3)	**-**	(149.3)
Net interest payable and similar charges	**(789.9)**	(696.4)
Fair value loss on financial instruments	**(45.9)**	(35.8)
Total net interest payable and similar charges	**(835.8)**	(732.2)
Loss on ordinary activities before taxation	**(255.8)**	(316.6)
Tax credit/(charge) on loss on ordinary activities	**64.3**	(5.2)
Loss on ordinary activities after taxation	**(191.5)**	(321.8)

(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 year ended 31 December 2011, turnover increased 9.9% to £2,280.0 million (2010: £2,074.3 million). This reflects increases of 14.5%, 8.9% and 0.4% in aeronautical, retail and other income respectively.

Year ended 31 December	**2011** **£m**	2010 £m	Change (%)
Aeronautical income	**1,276.4**	1,115.0	14.5
Retail income	**518.6**	476.3	8.9
Other income	**485.0**	483.0	0.4
Total	**2,280.0**	2,074.3	9.9

2.2.2.1 Aeronautical income

Aeronautical income increased 14.5% to £1,276.4 million (2010: £1,115.0 million). Average aeronautical income per passenger increased 10.4% to £14.60 (2010: £13.22).

Aeronautical income by airport

Year ended 31 December	**2011** **£m**	2010 £m	Change (%)
Heathrow	**1,149.6**	991.3	16.0
Stansted	**126.8**	123.7	2.5
Total	**1,276.4**	1,115.0	14.5

At Heathrow, the growth primarily reflects passenger traffic trends as well as the headline 6.2% and 12.2% increases in its tariffs from 1 April 2010 and 1 April 2011 respectively. This has been partially offset by lower than expected yields since April 2011, particularly due to a different passenger mix (higher proportion of European traffic) and a higher proportion of quieter aircraft than assumed when tariffs for the current regulatory year were determined. These factors led to aeronautical income being approximately £25 million lower than expected during the year ended 31 December 2011. This shortfall (or yield dilution) will be recovered through the 'K factor' true-up mechanism in the year commencing 1 April 2013.

At Stansted, with its year-on-year decline in traffic, growth in aeronautical income reflects principally the fact that whilst the change in the headline tariff for the year to 31 March 2011 was -1.3%, from 1 April 2011 it was 6.33%.

The headline maximum allowable yields at Heathrow and Stansted will increase by 12.7% and 6.83% respectively from 1 April 2012.

2.2.2.2 Retail income

The Group's retail business continued to perform well with net retail income ('NRI') per passenger increasing 5.5% to £5.58 (2010: £5.29) in the year ended 31 December 2011, led by Heathrow where NRI per passenger was up 5.3%.

This performance was based on gross retail income increasing 8.9% to £518.6 million (2010: £476.3 million) and NRI increasing 9.4% to £487.6 million (2010: £445.7 million).

Net retail income per passenger by airport[1]

Year ended 31 December	**2011** **£**	2010 £	Change (%)
Heathrow	**5.95**	5.64	5.3
Stansted	**4.16**	4.02	3.4
Total	**5.58**	5.29	5.5

(1) These figures have been calculated using un-rounded numbers

At Heathrow, gross retail income increased 10.7% to £435.4 million (2010: £393.2 million) and NRI per passenger increased 5.3% to £5.95 (2010: £5.64). The performance was led by duty and tax-free, airside specialist shops, catering and car parking. The strong in-terminal performance has been delivered whilst undertaking a major refurbishment of Terminal 3's retail facilities where disruption was at its height during the summer months. Year on year trading performance also benefited from a further shift in passenger mix from domestic to international passengers.

Strength in duty and tax-free partly reflects the new walk through area in the World Duty Free store in Terminal 3 and extension of the store in Terminal 5. In airside specialist shops, trading in the luxury segment has remained robust in recent months despite the more cautious macroeconomic environment. Catering had a buoyant year reflecting active rebalancing of the portfolio towards premium outlets, enhanced contractual terms and focus on the speed of service. Strength in car parking reflected increased usage, tariff increases and strength in premium services (short stay, business and valet parking services).

Stansted's gross retail income increased 0.1% to £83.2 million (2010: £83.1 million), a good performance given passenger trends which meant that NRI per passenger increased 3.4% to £4.16 (2010: £4.02). Growth in Stansted's retail income reflects performance particularly in car parking due to achieving higher yields per user with bureaux de change and advertising also supporting the recent positive retail performance. These improvements were partially offset by reductions elsewhere, particularly in duty and tax-free.

2.2.2.3 Other income

Income from activities other than aeronautical and retail increased 0.4% to £485.0 million (2010: £483.0 million). This partly reflects rail income increasing 7.9% to £111.1 million (2010: £103.0 million) due to Heathrow Express passenger numbers increasing 5.1% to 6.22 million (2010: 5.92 million) and higher revenues from increased passenger volumes on the Piccadilly line extension to Terminal 5. Property rental income also increased 1.8% to £110.3 million (2010: £108.3 million) due to rent reviews implemented from April 2010. The remaining revenue streams included in other income declined 3.0% principally due to the conclusion in 2010 of most of the 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 year ended 31 December 2011, adjusted operating costs increased 3.7% to £1,147.9 million (2010: £1,107.4 million).

Year ended 31 December	**2011 £m**	2010 £m	Change (%)
Employment costs	**339.1**	315.7	7.4
Maintenance expenditure	**137.0**	134.8	1.6
Utility costs	**110.8**	115.6	(4.2)
Rents and rates	**129.4**	117.0	10.6
General expenses	**232.7**	233.3	(0.3)
Retail expenditure	**31.0**	30.6	1.3
Intra-group charges/other	**167.9**	160.4	4.7
Total	**1,147.9**	1,107.4	3.7

The main drivers of the increased adjusted operating costs were higher employment costs and rents and rates. Employment costs were up 7.4% reflecting principally pay rises and increased headcount. The higher employee numbers are particularly due to increased airfield security personnel at Heathrow and more mobile sales assistants that have helped support growth at Heathrow Express. The increased employment costs also reflected increased overtime and use of temporary staff to support record traffic levels at Heathrow through the summer.

Higher rents and rates costs reflected a five yearly rates revaluation effective from April 2010, an annual rates increase from April 2011 and no recurrence of the rates rebate recorded in 2010.

Partially offsetting the increased employment and rents and rates costs was a reduction in utility costs towards the end of the year due to the mild autumn and reduced unit prices. In addition, general expenses and maintenance costs reflect no recurrence of the previously reported estimated £7.8 million cost of the severe winter weather in December 2010.

During 2011, the BAA group outsourced to Capgemini a range of IT services that were previously provided by the BAA group's own IT department. The services, which include application management, support of end user devices, IT infrastructure management, and telecoms support are provided under an initial five year contract. During 2011, the one-off incremental costs of transition were offset by cost savings under the new outsourcing arrangements.

Adjusted operating costs for 2011 were lower than forecast in the Investor Report issued in December 2011 reflecting particularly reduced intra-group charges and the lower utility costs and general expenses referred to above.

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

2.2.4 Adjusted EBITDA

In the year ended 31 December 2011, Adjusted EBITDA increased 17.1% to £1,132.1 million (2010: £966.9 million), resulting in an Adjusted EBITDA margin of 49.7% (2010: 46.6%).

The significant increase in Adjusted EBITDA from 2010 reflects improved underlying traffic, increased aeronautical and retail income per passenger, continued cost control and no recurrence of 2010's volcanic ash, strike and severe winter weather disruptions. Taking into account the financial impact of disruptions in 2010, previously estimated at £58.0 million, Adjusted EBITDA increased 10.5% to £1,132.1 million (2010: £1,024.9 million).

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 18.7% to £1,045.1 million (2010: £880.7 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 increased 0.9% to £87.0 million (2010: £86.2 million) due principally to higher tariffs, increased car parking and other income and lower general expenses offset by increased employment costs.

2.2.5 Operating profit

The Group recorded an operating profit for the year ended 31 December 2011 of £572.1 million (2010: £548.7 million). Relative to Adjusted EBITDA, operating profit includes £508.9 million in depreciation (2010: £476.7 million). In addition, it reflects a net £51.1 million exceptional charge included in operating profit (2010: £58.5 million credit). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

Year ended 31 December	**2011** **£m**	2010 £m	Change (%)
Adjusted EBITDA	**1,132.1**	966.9	17.1
Depreciation – ordinary	**(508.9)**	(476.7)	6.8
Exceptional items – pensions	**(40.3)**	89.9	n/a
Exceptional items – accelerated depreciation and impairment	**(11.0)**	(18.7)	(41.2)
Exceptional items – other	**0.2**	(12.7)	n/a
Operating profit	**572.1**	548.7	4.3

2.2.6 Exceptional items (including depreciation and impairment charges)

In the year ended 31 December 2011, there was a total net £43.2 million pre-tax charge (2010: £74.6 million) to the profit and loss account in respect of exceptional items, including impairment charges and other one-off items, with a £51.1 million charge (2010: £58.5 million credit) included in operating profit and a £7.9 million credit (2010: £133.1 million charge) below operating profit.

Items within operating profit included a £40.3 million non-cash pension related charge (2010: £89.9 million credit). This included the Group's share of the movement in the BAA Airports Limited defined benefit pension scheme, the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits as well as a re-allocation of pension balances between entities. There was also an impairment charge of £11.0 million in 2011 relating to the Airtrack rail project which the Group decided not to pursue. The accelerated depreciation charge of £18.7 million in 2010 was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. The £0.2 million exceptional credit in 2011 was due to the release of provisions that were no longer required. The £12.7 million cost in 2010 related primarily to various restructuring processes designed to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

Items below operating profit included a gain on the disposal of Gatwick of £7.9 million (2010: £16.2 million) related to the release of provisions no longer required for disposal costs. The 2010 gain on the disposal of Gatwick reflected principally the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected. In addition, in 2010 there were £149.3 million in impairment charges arising from the Group's decision not to pursue the development of new runways at Heathrow and Stansted given the new UK government's opposition to the development of new runways in South East England.

2.2.7 Taxation

The tax credit for the year ended 31 December 2011 results in an effective tax credit rate of 25.1% (2010: negative effective tax rate of 1.6%). This reflects a tax credit arising on ordinary activities of £40.3 million (2010: charge of £17.4 million) and a tax credit of £24.0 million (2010: credit of £12.2 million) due to the impact on deferred tax liabilities of the reductions in the main rate of UK corporation tax.

The tax credit for the year ended 31 December 2011 on ordinary activities results in an effective tax credit rate of 15.8% (2010: negative effective tax rate of 5.5%). The tax credit for the year is less than the credit implied by the statutory rate of 26.5% (2010: 28%) primarily due to permanent differences arising from non-qualifying depreciation.

The Finance Act 2011 enacted a reduction in the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. As a result, the Group's deferred tax balances, which were previously provided at 27%, have been re-measured at the rate of 25%. This has 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.

2.3 Cash flow

2.3.1 Summary cash flow

Year ended 31 December	**2011 £m**	2010 £m
Net cash inflow from operating activities	**1,132.2**	918.5
Net interest paid	**(388.8)**	(393.8)
Taxation – group relief paid	**(27.2)**	(17.1)
Cash flow after interest and tax	**716.2**	507.6
Net capital expenditure	**(864.7)**	(841.1)
Pension and other payments related to disposal of Gatwick airport	**(6.1)**	(125.3)
Dividends paid	**(24.8)**	-
Net cash outflow before management of liquid resources and financing	**(179.4)**	(458.8)
Management of liquid resources	**20.0**	193.5
Prepayment of derivative interest	**-**	(36.7)
Cancellation of derivatives	**(114.4)**	(73.9)
Issuance of ordinary share capital	**-**	217.4
Movement in borrowings and other financing flows	**279.9**	160.6
Increase in net cash	**6.1**	2.1

2.3.2 Cash flow from operating activities

Net cash inflow from operations in the year ended 31 December 2011 increased 23.3% to £1,132.2 million (2010: £918.5 million) which compares with Adjusted EBITDA of £1,132.1 million (2010: £966.9 million). The improved conversion of Adjusted EBITDA to operating cash flow in 2011 primarily reflects a one-off £47.2 million improvement in working capital following the implementation of a new BAA group cash management process that has resulted in cash in transit to the Group being received faster. Excluding this effect, as in 2010, operating cash flow was around £50 million less than Adjusted EBITDA, principally reflecting cash pension contributions being higher than the profit and loss account charge.

2.3.3 Capital expenditure

In the year ended 31 December 2011, the cash flow impact of the Group's capital investment programme was £864.7 million (2010: £841.1 million) with £843.8 million at Heathrow (2010: £818.7 million) and £20.9 million at Stansted (2010: £22.4 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, information technology, the transfer baggage tunnel between Terminals 3 and 5 and Terminal 5C.

2.3.4 Dividends

As part of the reversal of a £134.8 million loan made by BAA (SH) plc, the Group paid a £24.8 million dividend, with the remaining £110.0 million distributed through partial repayment of the loan.

In addition, as previously reported in the investor report issued in December 2011, BAA has decided in principle to commence paying dividends to its ultimate shareholders in 2012 for the first time since it was acquired by the Ferrovial-led consortium in 2006.

2.4 Pension scheme

At 31 December 2011, the BAA Airports Limited defined benefit pension scheme had a surplus of £38.7 million as measured under IAS 19, of which £32.4 million is attributable to the Group under the Group's shared services agreement. This compares with a scheme deficit of £43.6 million at 31 December 2010. The change from a scheme deficit to a surplus is due principally to employer cash contributions being greater than the current service charge since the increase in the value of the scheme assets was offset by increased liabilities. It also reflects a £26 million credit due to the change in obligation from RPI to CPI for certain defined benefit pension scheme members' future pension entitlements.

The scheme's trustees have recently concluded the triennial valuation of the defined benefit pension scheme and agreed with the BAA group a schedule of cash contributions to be made to the scheme by the BAA group from January 2012. The valuation was carried out as at 30 September 2010 and indicated a scheme deficit of £275 million calculated using the trustees' actuarial assumptions.

As part of the triennial valuation process, the BAA group will pay £97 million per annum into the scheme from 2012 to 2014. This compares with a total contribution of £80 million per annum paid from 2009 to 2011. The amount being paid in each of the next three years includes £24 million which is aimed to eliminate the deficit over a period of 9 years. All but approximately £15 million of the new annual amount will be met by the Group's airports.

2.5 Recent financing activity

During 2011, the Group strengthened its capital structure by completing approximately £1.5 billion in long-term bond issues. The highlight of this activity was the Group's debut US$1 billion bond completed successfully in June 2011 despite testing market conditions. This was an important strategic development, diversifying the Group's financing options by providing access to a substantial new investor base. The transaction provides a platform from which to develop over time a significant US dollar issuance programme that supplements issuance programmes in other currencies.

In addition, two sterling bond issues were completed in May 2011 raising close to £900 million. Together, these three new issues enabled the Group to repay in full its bank refinancing facility in September 2011.

Since the beginning of 2012, the Group has continued to be active in the capital markets, completing a number of transactions. These have been a CHF400 million Class A bond issue placed with a largely new investor base for the Group in Switzerland, a €700 million Class A bond, a £600 million Class B bond and a €50 million Class A private placement. In addition, a €1,000 million bond was repaid in February 2012.

In the remainder of 2012, the financing priorities for the Group will be to increase further the undrawn balance under its £2.7 billion revolving capital expenditure facility principally through continued capital markets issuance, potentially including further currency diversification beyond Sterling, Euro, US dollars and Swiss francs. The Group also intends to complete the refinancing of its capital expenditure facility (extending its term significantly beyond the current maturity date of August 2013).

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) Limited (‘BAA (SP)’) and its parent company, BAA (SH) plc (‘BAA (SH)’). It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

During 2011, the Group's nominal net debt increased 5.3% to £10,442.6 million at 31 December 2011 from £9,921.2 million at 31 December 2010. The increase in net debt primarily reflects two factors: capital investment at Heathrow exceeding the Group’s post-interest cash flow and accretion on the Group’s index-linked swaps and bonds.

The Group's nominal net debt at 31 December 2011 comprised £7,807.6 million outstanding under bond issues, £1,395.0 million outstanding under the Group’s capital expenditure facility, £918.6 million outstanding under other loan facilities, £349.2 million in index-linked derivative accretion and cash at bank and term deposits of £27.8 million (compared with cash and current asset investments of £33.2 million shown on the balance sheet). Nominal net debt comprised £9,417.6 million in senior net debt and £1,025.0 million in junior debt.

The accounting value of the Group's net debt at 31 December 2011 was £10,254.4 million (2010: £9,910.5 million).

The average cost of the Group’s external gross debt at 31 December 2011 was 4.17% (2010: 4.44%) 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 31 December 2011 was 6.45% (2010: 5.63%). The increase in the average cost of debt (including index-linked accretion) is the result of a number of factors including the replacement of short-term bank debt with higher cost bond debt and the impact of high current inflation on the accretion payable on index-linked swaps and bonds.

At 31 December 2011, the Group had approximately £1.4 billion in undrawn bank facilities and cash resources. Since the beginning of 2012, the Group has raised approximately £1.5 billion (see section 2.5 for more details) and also repaid a Euro-denominated bond that reached maturity in February 2012 amounting to £680 million in Sterling terms. Taking into account these transactions, the Group currently has sufficient liquidity to meet all its obligations in full including capital investment, debt service costs and debt maturities until the final maturity of its revolving capital expenditure facility in August 2013. On completing the refinancing of that facility, the Group’s liquidity horizon is expected to extend significantly.

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 £550.0 million of gross debt and £0.4 million of cash held at BAA (SH), BAA (SH)’s consolidated net debt at 31 December 2011 was £10,992.2 million, an increase of 5.7% from £10,401.1 million at 31 December 2010.

2.6.3 Regulatory Asset Base (‘RAB’)

Set out below are RAB figures for Heathrow and Stansted at 31 December 2010 and 31 December 2011. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	**Stansted £m**	**Total £m**
31 December 2010	11,448.7	1,327.3	12,776.0
31 December 2011	12,490.2	1,359.5	13,849.7

The increase in the total RAB during 2011 reflected the addition of approximately £935 million in capital expenditure partially offset by regulatory depreciation of around £555 million. Variation in RAB profiling adjustments added a further £75 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £620 million during the year.

BAA

2.6.4 Net interest payable and net interest paid

In the year ended 31 December 2011, the Group's net interest payable was £789.9 million (2010: £696.4 million) excluding fair value losses on financial instruments. Underlying interest payable was £764.6 million (2010: £654.6 million), after adjusting for £27.1 million (2010: £22.7 million) in capitalised interest and £52.4 million (2010: £64.5 million) in non-cash amortisation of financing fees and bond fair value adjustments. The increased underlying interest payable in 2011 is due to a number of factors, including the overall increase in net debt and the average cost of debt, both referred to in section 2.6.1.

Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £45.9 million (2010: £35.8 million).

Net interest paid in the year ended 31 December 2011 was £388.8 million (2010: £393.8 million). This consisted of £347.2 million (2010: £326.2 million) paid in relation to external debt and £41.6 million (2010: £67.6 million) under the debenture between BAA (SP) and BAA (SH). The increase in net interest paid on external debt between 2010 and 2011 primarily reflects the refinancing of loan facilities with bonds on which coupons were first paid in 2011 together with the impact of increased net debt. This was partially offset by the benefit to net interest paid of additional index-linked swaps entered into since November 2010. The lower interest paid on the debenture between BAA (SP) and BAA (SH) is due to the decrease in the amount of the debenture following the partial repayment of £1 billion in September 2010, financed by new and existing facilities in BAA (SP).

Net interest paid is lower than net interest payable primarily due to an amortisation charge of £62.1 million (2010: £140.6 million) in net interest payable relating to prepayments of derivative interest made in earlier periods and a £247.2 million non-cash charge (2010: £118.6 million) relating to accretion on index-linked instruments. In addition, there is the non-cash amortisation of financing fees and bond fair value adjustments partially offset by capitalised interest.

2.6.5 Financial ratios

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

At 31 December 2011, the Group's senior and junior gearing ratios (nominal net debt to RAB) were 68.0% and 75.4% respectively (2010: 68.8% and 77.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. BAA (SH)'s gearing ratio was 79.4% (2010: 81.4%) compared to a covenant level of 90.0% under its financing agreements. The reduction in gearing ratios since 31 December 2010 reflects primarily the retention of operating cash flow in the Group and the benefit to the RAB of inflation referred to in section 2.6.3.

In the year ended 31 December 2011, the Group's senior and junior interest cover ratios (the ratio of cashflow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.76x and 2.34x respectively (2010: 2.08x and 1.85x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. BAA (SH)'s interest cover ratio was 2.17x (2010: 1.55x) compared to a covenant level of 1.00x under BAA (SH)'s financing agreements. The improvement in the interest cover ratios from 2010 reflects primarily the increased cash flow from operations generated by the Group in 2011. Cash exceptional items excluded in determining 2011 interest cover ratios included the one-off working capital benefit referred to in section 2.3.2.

2.7 Outlook

This year is expected to see strong growth in turnover, Adjusted EBITDA and operating cash flow driven principally by increases in aeronautical tariffs. Heathrow also intends to make significant progress on the construction of the new Terminal 2 with capital investment forecast to increase materially on 2011. The Group is also focused on ensuring it delivers on the important role in the overall London 2012 Games experience that its airports will play as the arrival and departure point for most athletes and visitors.

Passenger traffic in early 2012 has been consistent with expectations with Heathrow achieving record traffic in January. Therefore at this stage the outlook for the Group's financial performance in 2012 remains consistent with guidance in the Investor Report distributed in December 2011.

Appendix 1 – Financial information

BAA (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2011

	Audited Year ended 31 December 2011 £m	Audited Year ended 31 December 2010 £m
Turnover – continuing operations	**2,280.0**	2,074.3
Operating costs – ordinary	**(1,656.8)**	(1,584.1)
Operating (costs)/gain – exceptional: pensions	**(40.3)**	89.9
Operating costs – exceptional: other	**(10.8)**	(31.4)
Total operating costs	**(1,707.9)**	(1,525.6)
Total operating profit – continuing operations	**572.1**	548.7
Impairment of fixed assets – exceptional	**-**	(149.3)
Gain on disposal of Gatwick airport – discontinued operations	**7.9**	16.2
Interest receivable and similar income	**220.4**	162.2
Interest payable and similar charges	**(1,010.3)**	(858.6)
Fair value loss on financial instruments	**(45.9)**	(35.8)
Net interest payable and similar charges	**(835.8)**	(732.2)
Loss on ordinary activities before taxation	**(255.8)**	(316.6)
Tax credit/(charge) on loss on ordinary activities	**64.3**	(5.2)
Loss on ordinary activities after taxation	**(191.5)**	(321.8)

BAA (SP) Limited

Consolidated balance sheet
as at 31 December 2011

	Audited 31 December 2011 £m	Audited 31 December 2010 £m
Fixed assets		
Tangible fixed assets	**12,160.5**	11,678.2
Financial assets – derivative financial instruments	**369.1**	551.7
Total fixed assets	**12,529.6**	12,229.9
Current assets		
Stocks	**8.0**	5.5
Debtors	**305.9**	357.7
Financial assets – derivative financial instruments	**170.9**	0.1
Current asset investments	**21.0**	41.0
Cash at bank and in hand	**12.2**	6.1
Total current assets	**518.0**	410.4
Current liabilities		
Creditors: amounts falling due within one year	**(1,553.2)**	(586.2)
Net current liabilities	**(1,035.2)**	(175.8)
Total assets less current liabilities	**11,494.4**	12,054.1
Creditors: amounts falling due after more than one year	**(11,096.0)**	(11,060.1)
Deferred tax	**(123.1)**	(271.1)
Provisions for liabilities and charges	**(33.8)**	(87.0)
Net assets	**241.5**	635.9
Capital and reserves		
Called up share capital	**11.0**	11.0
Share premium reserve	**499.0**	499.0
Revaluation reserve	**1,514.4**	1,470.9
Merger reserve	**(4,535.6)**	(4,535.6)
Fair value reserve	**(396.3)**	(174.7)
Profit and loss reserve	**3,149.0**	3,365.3
Total shareholder's funds	**241.5**	635.9

BAA (SP) Limited

Consolidated summary cash flow statement
for the year ended 31 December 2011

	Audited Year ended 31 December 2011 £m	Audited Year ended 31 December 2010 £m
Operating profit – continuing operations	**572.1**	548.7
Adjustments for:		
Depreciation (excluding exceptional accelerated depreciation and impairment)	**519.9**	495.4
(Gain)/loss on disposal of tangible fixed assets	**(0.3)**	0.3
Working capital changes:		
Increase in stock and debtors	**(34.6)**	(4.5)
Increase in creditors	**30.6**	18.0
Net release of provisions	**(7.3)**	(17.0)
Difference between pension charge and cash contributions	**(35.7)**	(32.5)
Exceptional pension charge/(credit)	**40.3**	(89.9)
Exceptional working capital settlement of intercompany balance	**47.2**	-
Net cash inflow from operating activities – continuing	**1,132.2**	918.5
Net interest paid	**(388.8)**	(393.8)
Taxation – group relief paid	**(27.2)**	(17.1)
Net capital expenditure	**(864.7)**	(841.1)
Disposal of subsidiary – proceeds	**-**	1.4
Disposal of subsidiary – pension and disposal costs	**(6.1)**	(126.7)
Dividends paid	**(24.8)**	-
Net cash outflow before use of liquid resources and financing	**(179.4)**	(458.8)
Management of liquid resources	**20.0**	193.5
Issuance of bonds	**1,507.9**	830.1
Drawdown of Class B facility	**-**	625.0
Drawdown of capital expenditure facility	**95.0**	600.0
Repayment of facilities and other items	**(1,339.8)**	(1,037.5)
Increase/(decrease) in amount owed to BAA (SH) plc	**31.8**	(1,000.0)
Settlement of accretion on index-linked swaps	**(15.0)**	-
Cancellation of derivatives	**(114.4)**	(73.9)
Prepayment of derivative interest	**-**	(36.7)
Restricted cash	**-**	143.0
Issuance of ordinary share capital	**-**	217.4
Net cash inflow from financing	**165.5**	267.4
Increase in cash	**6.1**	2.1

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 31 December 2010. Statutory financial statements for the year ended 31 December 2010 have been filed with the Registrar of Companies. 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 (the 'Group') for the year ended 31 December 2011. The auditors' reports on the 2011 and 2010 financial statements were 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.

BAA (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2011

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	**Audited Year ended 31 December 2011 £m**	Audited Year ended 31 December 2010 £m
Heathrow	**2,045.6**	1,844.7
Stansted	**234.4**	229.6
Total	**2,280.0**	2,074.3

Operating profit	**Audited Year ended 31 December 2011 £m**	Audited Year ended 31 December 2010 £m
Heathrow	**526.8**	482.0
Stansted	**39.4**	61.0
Other entities and adjustments[1]	**5.9**	5.7
Total	**572.1**	548.7

Net assets/(liabilities)	**Audited 31 December 2011 £m**	Audited 31 December 2010 £m
Heathrow	**1,452.0**	1,676.4
Stansted	**887.6**	933.5
Other entities and adjustments[1]	**(2,098.1)**	(1,974.0)
Total	**241.5**	635.9

[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.

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**

Audited Year ended 31 December 2010	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation[1] £m	Operating profit £m
Heathrow	875.1	43.3	(436.4)	482.0
Stansted	86.2	15.1	(40.3)	61.0
Other entities and adjustments[2]	5.6	0.1	-	5.7
Total	966.9	58.5	(476.7)	548.7

[1] Depreciation excluding exceptional accelerated depreciation and 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.

2. Operating and non-operating exceptional items

	Audited Year ended 31 December 2011 £m	Restated[1] Audited Year ended 31 December 2010 £m
Operating costs – exceptional: pension		
Pension (charge)/credit	**(40.3)**	89.9
Operating costs – exceptional: other		
Accelerated depreciation and impairment	**(11.0)**	(18.7)
Reorganisation credit/(costs)	**0.2**	(12.7)
Total operating exceptional items – continuing	**(51.1)**	58.5
Exceptional impairment of tangible fixed assets	**-**	(149.3)
Gain on disposal of Gatwick airport – discontinued operations	**7.9**	16.2
Total non-operating exceptional items	**7.9**	(133.1)
Taxation on exceptional items	**10.0**	(15.8)
Total exceptional items after tax	**(33.2)**	(90.4)

[1] The presentation of certain balances for the year ended 31 December 2010 has been restated to be consistent with current period disclosures.

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 - ordinary. Cash contributions are made directly by the Group's airports and HEX to the BAA Airports Limited defined benefit pension scheme 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 and will only be settled when the cash outflows are requested by BAA Airports Limited.

During 2011 there was a net exceptional pension charge of £40.3 million (2010: £89.9 million credit). This includes the Group's share of the movement in the BAA Airports Limited defined benefit pension scheme, Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits as well as a re-allocation of pension balances between entities.

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

The £0.2 million credit in 2011 was due to the release of provisions that were no longer required. The reorganisation costs in 2010 related primarily to various restructuring processes designed to reduce the size and cost of overhead functions following the sale of Gatwick airport in 2009.

Non-operating exceptional items
During 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. The £16.2 million gain on disposal in 2010 reflected the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected, and the receipt of a further £1.4 million on the finalisation of Gatwick's balance sheet at completion of the disposal.

The £149.3 million exceptional impairment of tangible fixed assets in 2010 related to the Group withdrawing its planning permission applications for Stansted Generation 2 and ceasing work on the development of its planning application for a third runway at Heathrow. This was as a result of the change in UK government and its policy towards the development of new runways in the South East of England.

BAA

BAA (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2011 *continued*

3. Net interest payable and similar charges

	Audited Year ended 31 December 2011 £m	Audited Year ended 31 December 2010 £m
Interest receivable and similar income		
Interest receivable on derivatives not in hedge relationship	**220.0**	160.3
Interest receivable from other group undertakings	**-**	1.1
Interest on bank deposits	**0.4**	0.8
	220.4	162.2
Interest payable and similar charges		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(462.2)**	(387.2)
Bank loans and overdrafts and related hedging instruments	**(157.6)**	(193.5)
Interest payable on derivatives not in hedge relationship[2]	**(347.4)**	(214.1)
Facility fees	**(23.3)**	(26.8)
Interest on debenture payable to BAA (SH) plc	**(46.9)**	(59.7)
	(1,037.4)	(881.3)
Less capitalised interest[3]	**27.1**	22.7
	(1,010.3)	(858.6)
Net interest payable before fair value loss	**(789.9)**	(696.4)
Fair value gain/(loss) on financial instruments		
Interest rate swaps: cash flow hedge[4]	**3.1**	(6.3)
Index-linked swaps: not in hedge relationship[5]	**(88.7)**	(35.5)
Cross-currency swaps: cash flow hedge[4]	**12.2**	6.0
Cross-currency swaps: fair value hedge[4]	**30.8**	0.7
Fair value re-measurements of foreign exchange contracts and currency balances	**(3.3)**	(0.7)
	(45.9)	(35.8)
Net interest payable and similar charges	**(835.8)**	(732.2)

[1] Includes accretion of £15.4 million (2010: £11.8 million) on index-linked bonds.
[2] Includes accretion of £231.8 million (2010: £106.8 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 2.08% (2010: 2.22%) to expenditure incurred on such assets.
[4] Hedge ineffectiveness on derivatives in hedge relationship.
[5] Reflects the impact on the valuation of movements in implied future inflation and interest rates.

4. Tax on loss on ordinary activities

The tax credit for the year ended 31 December 2011 results in an effective tax credit rate of 25.1% (2010: negative effective tax rate of 1.6%). This reflects a tax credit arising on ordinary activities of £40.3 million (2010: charge of £17.4 million) and a tax credit of £24.0 million (2010: credit of £12.2 million) due to the impact on deferred tax liabilities of the reductions in the main rate of UK corporation tax.

The tax credit for the year ended 31 December 2011 on ordinary activities results in an effective tax credit rate of 15.8% (2010: negative effective tax rate of 5.5%). The tax credit for the year is less than the credit implied by the statutory rate of 26.5% (2010: 28%) primarily due to permanent differences arising from non-qualifying depreciation.

The tax charge for the year ended 31 December 2010 was less than the credit implied by the statutory rate of 28%, primarily due to the non-deductibility for tax purposes of the impairment charge for the year and to a deferred tax charge related to accelerated depreciation in 2010 and prior years on assets with shortened lives.

The Finance Act 2011 enacted a reduction in the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. As a result the Group's deferred tax balances, which were previously provided at 27%, have been re-measured at the rate of 25%. This has 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.

For the year ended 31 December 2010, the Finance (No. 2) Act 2010 enacted a reduction in the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011. As a result, the Group's deferred tax balances, which were provided at 28%, were re-measured at the rate of 27%. This resulted in a reduction in the net deferred tax liability of £10.4 million, with £12.2 million credited to the profit and loss account and £1.8 million charged to reserves.

5. Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £871.7 million and £nil respectively (2010: £39.1 million and £0.2 million respectively).

Within Creditors: amounts falling due after more than one year are borrowings and financial derivatives of £10,013.5 million and £1,081.6 million respectively (2010: £10,484.3 million and £573.1 million respectively).

	Audited 31 December 2011 £m	Audited 31 December 2010 £m
Current borrowings		
Secured		
Bank loans	**39.1**	39.1
Bonds:		
3.975% €1,000 million due 2012	**832.6**	-
Total current borrowings	**871.7**	39.1
Non-current borrowings		
Secured		
Syndicated term facility	**-**	1,292.2
Capital expenditure facility	**1,395.0**	1,300.0
Other bank loans	**870.0**	907.2
	2,265.0	3,499.4
Secured		
Bonds:		
3.975% €1,000 million due 2012	**-**	832.3
5.850% £400 million due 2013	**379.9**	373.9
4.600% €750 million due 2014	**588.8**	593.9
12.450% £300 million due 2016	**356.3**	367.2
4.125% €500 million due 2016	**398.5**	413.6
4.600% €750 million due 2018	**559.8**	567.6
6.250% £400 million due 2018	**397.1**	396.8
9.200% £250 million due 2021	**280.6**	282.8
4.875% US$1,000 million due 2021	**683.3**	-
5.225% £750 million due 2023	**624.9**	618.0
6.750% £700 million due 2026	**689.8**	689.4
7.075% £200 million due 2028	**197.5**	197.4
6.450% £900 million due 2031	**840.8**	839.5
3.334%+RPI £365 million due 2039[1] (2010: £235 million)	**416.3**	246.7
5.875% £750 million due 2041	**737.3**	-
	7,150.9	6,419.1
Unsecured		
BAA (SP) Limited debenture payable to BAA (SH) plc	**597.6**	565.8
Total non-current borrowings	**10,013.5**	10,484.3
Total borrowings	**10,885.2**	10,523.4

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

Appendix 2

Analysis of turnover and operating costs for the year ended 31 December 2011

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	1,149.6	-	**1,149.6**	126.8	**1,276.4**
Retail income	435.4	-	**435.4**	83.2	**518.6**
Car parking	79.3	-	79.3	35.1	114.4
Duty and tax-free	114.3	-	114.3	11.6	125.9
Airside specialist shops	85.2	-	85.2	6.6	91.8
Bureaux de change	39.5	-	39.5	8.2	47.7
Catering	36.0	-	36.0	9.5	45.5
Landside shops and bookshops	21.2	-	21.2	4.6	25.8
Advertising	27.9	-	27.9	2.4	30.3
Car rental	13.0	-	13.0	2.4	15.4
Other	19.0	-	19.0	2.8	21.8
Operational facilities and utilities income	148.0	-	**148.0**	9.8	**157.8**
Property rental income	102.1	-	**102.1**	8.2	**110.3**
Rail income	111.1	-	**111.1**	-	**111.1**
Other income	93.5	-	**93.5**	6.4	**99.9**
HEX inter-company elimination	(57.9)	63.8	**5.9**	-	**5.9**
Total income	1,981.8	63.8	**2,045.6**	234.4	**2,280.0**
Operating costs					
Employment costs	262.1	21.5	**283.6**	55.5	**339.1**
Maintenance expenditure	110.6	16.5	**127.1**	9.9	**137.0**
Utility costs	89.1	1.8	**90.9**	19.9	**110.8**
Rents and rates	113.2	1.4	**114.6**	14.8	**129.4**
General expenses	188.8	14.4	**203.2**	29.5	**232.7**
Retail expenditure	22.8	-	**22.8**	8.2	**31.0**
Intra-group charges/other	218.7	2.3	**221.0**	9.7	**230.7**
Gain on disposal of fixed assets	(0.2)	-	**(0.2)**	(0.1)	**(0.3)**
HEX inter-company elimination	(62.5)	-	**(62.5)**	-	**(62.5)**
Adjusted operating costs	942.6	57.9	**1,000.5**	147.4	**1,147.9**
Depreciation	468.3	0.1	**468.4**	40.5	**508.9**
Exceptional items	44.1	(0.1)	**44.0**	7.1	**51.1**
Total operating costs	1,455.0	57.9	**1,512.9**	195.0	**1,707.9**
Adjusted EBITDA	1,039.2	5.9	**1,045.1**	87.0	**1,132.1**

Analysis of turnover and operating costs for the year ended 31 December 2010

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	991.3	-	**991.3**	123.7	**1,115.0**
Retail income	393.2	-	**393.2**	83.1	**476.3**
Car parking	70.1	-	70.1	34.4	104.5
Duty and tax-free	101.1	-	101.1	12.4	113.5
Airside specialist shops	76.7	-	76.7	6.7	83.4
Bureaux de change	36.7	-	36.7	7.7	44.4
Catering	30.9	-	30.9	9.6	40.5
Landside shops and bookshops	20.3	-	20.3	4.7	25.0
Advertising	28.4	-	28.4	2.1	30.5
Car rental	12.7	-	12.7	2.4	15.1
Other	16.3	-	16.3	3.1	19.4
Operational facilities and utilities income	149.4	-	**149.4**	10.2	**159.6**
Property rental income	100.1	-	**100.1**	8.2	**108.3**
Rail income	103.0	-	**103.0**	-	**103.0**
Other income	102.1	-	**102.1**	4.4	**106.5**
HEX inter-company elimination	(56.2)	61.8	**5.6**	-	**5.6**
Total income	1,782.9	61.8	**1,844.7**	229.6	**2,074.3**
Operating costs					
Employment costs	245.8	19.6	**265.4**	50.3	**315.7**
Maintenance expenditure	109.2	15.5	**124.7**	10.1	**134.8**
Utility costs	93.7	2.3	**96.0**	19.6	**115.6**
Rents and rates	101.6	2.4	**104.0**	13.0	**117.0**
General expenses	188.6	13.7	**202.3**	31.0	**233.3**
Retail expenditure	22.1	-	**22.1**	8.5	**30.6**
Intra-group charges/other	208.3	2.7	**211.0**	10.9	**221.9**
Loss on disposal of fixed assets	0.3	-	**0.3**	-	**0.3**
HEX inter-company elimination	(61.8)	-	**(61.8)**	-	**(61.8)**
Adjusted operating costs	907.8	56.2	**964.0**	143.4	**1,107.4**
Depreciation	436.4	-	**436.4**	40.3	**476.7**
Exceptional items	(43.3)	(0.1)	**(43.4)**	(15.1)	**(58.5)**
Total operating costs	1,300.9	56.1	**1,357.0**	168.6	**1,525.6**
Adjusted EBITDA	875.1	5.6	**880.7**	86.2	**966.9**