

News Release

27 July 2011

BAA (SP) Limited

Results for the six months ended 30 June 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.

- **Record Heathrow passenger traffic throughout second quarter of 2011**
- **Passenger traffic up 7.1% at 41.4 million with 9.1% growth at Heathrow (2.9% underlying)**
- **Revenue up 12.1% and Adjusted EBITDA up 27.1%**
- **Strong financial performance reflects improved underlying traffic, increased revenue per passenger, good cost control and no recurrence of 2010's volcanic ash and strike disruptions**
- **Consistent service standards including better punctuality at both Heathrow and Stansted**
- **Heathrow transformation continues with Terminal 5C now fully operational**
- **Successful debut US\$1 billion bond further transforms BAA's capital structure and liquidity**
- **BAA is considering a judicial review of the Competition Commission's continued demand that Stansted and a Scottish airport are sold**

At or for six months ended 30 June	2011	2010	Change (%)
<i>(figures in £m unless otherwise stated)</i>			
Revenue	1,073.9	957.6	12.1
Adjusted EBITDA ⁽¹⁾	510.5	401.7	27.1
Cash generated from operations ⁽²⁾	469.6	398.4	17.9
Adjusted pre-tax loss ⁽³⁾	(116.9)	(167.4)	(30.2)
Pre-tax loss	(249.2)	(279.7)	(10.9)
BAA (SP) Limited consolidated net debt ⁽⁴⁾⁽⁵⁾	10,128.2	9,921.2	2.1
BAA (SH) plc consolidated net debt ⁽⁴⁾⁽⁵⁾	10,628.0	10,401.1	2.2
Regulatory Asset Base ⁽⁵⁾	13,373.8	12,776.0	4.7
Passengers (m) ⁽⁶⁾	41.4	38.7	7.1
Net retail income per passenger ⁽⁶⁾⁽⁷⁾	£5.59	£5.20	7.6

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

(2) Cash generated from operations in 2010 restated from £384.0 million

(3) Adjusted pre-tax loss is before exceptional items, gain on disposal of Gatwick airport, impairment of fixed assets and fair value adjustments

(4) Nominal net debt excluding intra-BAA group loans and including index-linked accretion

(5) 2010 net debt and RAB figures are as at 31 December 2010

(6) Changes in passengers and net retail income per passenger are calculated using unrounded data

(7) See section 2.2.2.2 for calculation of net retail income per passenger

Colin Matthews, Chief Executive Officer of BAA, said:

"This is a strong financial performance that reflects record passenger numbers, increased revenue per passenger and good cost control. We remain focused on customer service and Heathrow has achieved some of its best ever levels of flight punctuality and baggage delivery. BAA is investing £1 billion in new passenger facilities at Heathrow during 2011 and the airport's newest, Terminal 5C, opened in June, improving passengers' experience of the airport."

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There will be a conference call today at 9.30 am (UK 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 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: 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: 270711) as it is used during the call at:

<https://arkadin-event.webex.com/arkadin-event/onstage/g.php?t=a&d=702075552>

There will be a further conference call at 3.00 pm (UK time)/10.00 am (Eastern time)/7.00 am (Pacific time) particularly for the benefit of US investors which will include a re-run of the presentation given in London in the morning that will be followed by a live question and answer session. The conference call details for this event (including participant PIN code) are the same as above whilst the presentation will be available (using event password: 270711) online at:

<https://arkadin-event.webex.com/arkadin-event/onstage/g.php?t=a&d=701093226>

BAA (SP) Limited

Consolidated results for the six months ended 30 June 2011

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Appendix 1 Unaudited consolidated financial information for BAA (SP) Limited

Appendix 2 Analysis of turnover and operating costs by airport and activity

1 Key business developments

1.1 Passenger traffic

Passenger traffic for the six months ended 30 June 2011 at the Group's airports is analysed below:

<i>(figures in millions unless otherwise stated)</i>	2011	2010	Change (%) ⁽¹⁾
Passengers by airport			
Heathrow	32.9	30.1	9.1
Stansted	8.5	8.5	0.2
Passengers by market served			
UK	3.0	3.0	1.1
Europe ⁽²⁾	20.9	19.5	7.5
Long haul	17.4	16.2	7.8
Total passengers⁽¹⁾	41.4	38.7	7.1

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

(2) Includes North African charter traffic

In the six months ended 30 June 2011, combined passenger traffic at Heathrow and Stansted increased 7.1% to 41.4 million (2010: 38.7 million) with Heathrow up 9.1% and Stansted up 0.2%. Reported year on year performance was influenced by external factors in 2010 including particularly disruption caused by volcanic ash and industrial action by British Airways cabin crew at Heathrow that together resulted in the loss of an estimated 2.2 million passengers. Adjusting for the 2010 disruptions, passenger traffic across the two airports is estimated to have increased 1.4% with Heathrow up 2.9% and Stansted down 3.8%.

Heathrow's traffic increased 9.1% to 32.9 million (2010: 30.1 million) due to no recurrence of 2010's disruptions together with strong underlying traffic, with the airport enjoying its busiest second quarter ever (including recording its second busiest day in history during June). This performance reflects the strength of its role as a major European hub and its broad international links, particularly in long haul markets, that are supporting the export led rebalancing of the UK economy as it recovers from the recent recession.

Over the whole six months, of its major markets, European scheduled traffic showed the most significant year on year growth, increasing 12.4% to 12.3 million passengers (2010: 11.0 million). Most recently, the relative performance in North Atlantic traffic improved significantly in the second quarter driven by the success of American Airlines' and British Airways' joint transatlantic services launched in March 2011. The proportion of origin and destination traffic at Heathrow remained constant at 64% (2010: 64%) over the first six months of 2011.

Stansted's reported traffic increased 0.2% to 8.5 million (2010: 8.5 million). This reflects no recurrence of the disruption caused by volcanic ash in April and May 2010 that resulted in the loss of approximately 0.4 million passengers. Adjusting for this, Stansted's traffic declined 3.8%, still reflecting airlines' redeployment of capacity from the UK to other European markets. However, performance improved towards the end of the period with moderation in year on year declines and increasing load factors suggesting gradually more positive demand dynamics.

1.2 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.

In particular, the Group's key strategic objective is to ensure Heathrow remains the UK's gateway to the world and Europe's hub of choice by making every journey better.

1.2.1 Investment in modern airport facilities

The Group continues its focus on transforming passengers' and airlines' experience of using Heathrow through investment in modern terminal facilities and related infrastructure.

Good progress has continued on constructing the new Terminal 2, including its first satellite building (Terminal 2B) and multi-storey car park. By 30 June 2011, approximately 80% of the steelwork for the main terminal building and its roof was complete, clearly defining the terminal's superstructure. By the same date, all 12 of the terminal building's steel cores were installed with three installed in each of the first and second quarters of 2011. The terminal substructure's base slab and perimeter wall has also been completed and installation of the southern and eastern faces of the glazed façade has commenced.

Work on the terminal superstructure, including the façade and roof panels, should be largely complete in 2011 with the building expected to be weather tight by early 2012, enabling the terminal's internal fit-out to commence. This will continue through 2012 with 2013 expected to be focused on commissioning and operational readiness testing for the terminal prior to operations commencing in early 2014.

Work on the aircraft stands is underway. The central southern stands area will be the main initial focus, including installation of fuel, electrical and communications pipes and ducts and final pavement construction.

In parallel with construction of the main terminal building, work progresses on the second phase of its satellite building with continued construction of the extensive basement structures to house the tracked transit and baggage systems and tunnels that will connect the satellite to the main building, once the main terminal's second phase is constructed. The substructure and basement works for the satellite building are expected to continue until June 2012. Construction of the satellite's steel frame commenced in July 2011 with the building scheduled to be weather tight in late 2012.

Contracts were signed in March 2011 for the construction of the terminal's multi-storey car park with work on site commencing as planned in May 2011. Significant design work on the covered court between the car park and the terminal building, including vertical circulation and the roads and ramps, is underway. The car park is expected to be completed in late 2013.

At Terminal 5C, with construction activity largely complete, operational readiness activities commenced in January 2011. Completion of these activities was followed by partial live operation and full operation of Terminal 5C commenced in June 2011, consistent with the intention that Terminal 5's additional facilities would be fully operational prior to 2011's peak summer traffic season.

In relation to Heathrow's baggage systems, following fitting out in 2010 of the tunnel between Terminals 3 and 5 with an automated baggage transfer system, testing and commissioning of this system has occurred. In addition, apron level baggage system fit out and installation of baggage handling equipment in the interface building between the tunnel and the Central Terminal Area has started. Live operation of this facility remains on track to start by the end of 2011. Elsewhere in Heathrow's baggage investment programme, following re-assessment of the proposed new integrated baggage system for Terminal 3, a project solution was agreed in early 2011. Overall design of the required facilities has been completed

and user requirements were endorsed by key stakeholders in June. Enabling project works have also commenced as have ground works with significant piling work completed. In the coming months, site works will focus on road-way re-alignment to facilitate the final phase of piling and work to finalise scope, cost and schedule for full project execution.

1.2.2 Service standards

The Group's airports have continued to deliver consistent service standards with some strong results achieved during the first half of 2011. Passenger opinions confirm these trends with, for example, in the second quarter of 2011 Heathrow equalling its highest ever score for overall passenger satisfaction in the independent Airport Service Quality survey (produced by Airports Council International). These results further consolidate Heathrow's position as the second ranked amongst the major European hub airports.

Individual service standards continue to show overall improvement from 2010 at Heathrow and Stansted. In relation to departure punctuality, the proportion of aircraft departing within 15 minutes of schedule during the six months ended 30 June 2011 was 81% (2010: 75%) at Heathrow and 89% (2010: 81%) at Stansted. In March and April 2011, Heathrow recorded some of its highest monthly rates of departure punctuality in recent years.

Heathrow's baggage misconnect rate improved to 15 per 1,000 passengers (2010: 17) during the six months ended 30 June 2011 with the airport delivering its best ever monthly baggage misconnect performance in April 2011.

The improvement in these service standards from 2010 partly reflected no recurrence in 2011 of the severe winter weather in January 2010 although difficult weather conditions affected punctuality to some extent in May and June 2011 and increased transfer passengers also contributed to a modest deterioration in baggage misconnect rates in June 2011.

On security queuing, passengers passed through central security within periods prescribed under service quality rebate schemes 97.5% (2010: 97.9%) of the time at Heathrow and 97.4% (2010: 98.8%) of the time at Stansted during the six months ended 30 June 2011. This compares with 95.0% service standards in both cases.

The South East Airports Taskforce's report published on 14 July 2011 recommends that, subject to trials and consultation during 2011 and 2012, Heathrow should have greater operational freedom to enable it to prevent or mitigate airport disruptions. For example, this might involve greater simultaneous use of both runways for arrivals and departures for limited periods in such circumstances. If implemented, such measures are expected to improve service standards such as arrivals and departure punctuality and baggage misconnects as well as bringing certain environmental benefits such as reduced stacking.

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

In relation to the Competition Commission's ('CC') consideration of BAA's submission on material changes in circumstances since its report of March 2009, on 19 July 2011 the CC confirmed that it still requires BAA to sell Stansted (as well as either Glasgow or Edinburgh airport). BAA is considering a judicial review of the CC's decision.

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. 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.

<i>Six months ended 30 June</i>	2011 £m	2010 £m
Group turnover	1,073.9	957.6
Adjusted operating costs ⁽¹⁾	(563.4)	(555.9)
Adjusted EBITDA⁽²⁾	510.5	401.7
Operating gain/(costs) – exceptional – pensions ⁽³⁾	22.6	76.7
Operating costs – exceptional – other ⁽³⁾	-	(3.6)
EBITDA	533.1	474.8
Depreciation – ordinary	(234.4)	(238.8)
Depreciation and impairment – exceptional ⁽³⁾	(11.0)	(18.7)
Operating profit	287.7	217.3
Gain on disposal of Gatwick airport – discontinued operations	-	14.6
Exceptional impairment of fixed assets	-	(104.4)
Net interest payable and similar charges	(393.0)	(330.3)
Fair value loss on financial instruments	(143.9)	(76.9)
Total net interest payable and similar charges	(536.9)	(407.2)
Loss on ordinary activities before taxation	(249.2)	(279.7)
Tax credit on loss on ordinary activities	118.8	19.5
Loss on ordinary activities after taxation	(130.4)	(260.2)

(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 2.2.5 for further discussion of exceptional items

2.2.2 Turnover

In the six months ended 30 June 2011, turnover increased 12.1% to £1,073.9 million (2010: £957.6 million). This reflects increases of 15.9%, 14.2% and 2.2% in aeronautical income, retail income and other income respectively.

<i>Six months ended 30 June</i>	2011 £m	2010 £m	Change (%)
Aeronautical income	587.9	507.3	15.9
Retail income	246.7	216.1	14.2
Other income	239.3	234.2	2.2
Total	1,073.9	957.6	12.1

2.2.2.1 Aeronautical income

Aeronautical income by airport

<i>Six months ended 30 June</i>	2011 £m	2010 £m	Change (%)
Heathrow	528.7	450.0	17.5
Stansted	59.2	57.3	3.3
Total	587.9	507.3	15.9

In the six months ended 30 June 2011, aeronautical income increased 15.9% to £587.9 million (2010: £507.3 million). 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, particularly during the second quarter of 2011, due to a different passenger mix than that expected (higher proportion of European traffic) as well as a higher than forecast proportion of quieter aircraft and increased remote stand usage due to Terminal 5C opening slightly later than assumed when tariffs for the current regulatory year were determined. If not reversed in

the remainder of the current regulatory year, the balance of the maximum allowable yield not earned will be recovered through the 'K factor' true-up mechanism in the year commencing 1 April 2013.

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

2.2.2.2 Retail income

The Group's retail business continued to perform very well with net retail income ('NRI') per passenger increasing 7.6% to £5.59 (2010: £5.20). The performance was led by Heathrow where NRI per passenger was up 7.7%.

This performance was based on gross retail income increasing 14.2% to £246.7 million (2010: £216.1 million) and NRI increasing 15.3% to £231.5 million (2010: £200.8 million).

Net retail income per passenger by airport⁽¹⁾

<i>Six months ended 30 June</i>	2011 £	2010 £	Change (%)
Heathrow	5.98	5.55	7.7
Stansted	4.10	3.93	4.2
Total	5.59	5.20	7.6

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

At Heathrow, gross retail income increased 16.4% to £207.5 million (2010: £178.3 million) and NRI per passenger increased 7.7% to £5.98 (2010: £5.55). The performance was led by duty and tax-free, airside specialist shops, car parking and catering. Strength in duty and tax-free was supported by a 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, the luxury segment continued to benefit from strong trading consistent with experiences in this sector outside airport outlets. Strength in car parking reflected increased usage, tariff increases and strength in premium business usage.

Stansted's gross retail income increased 3.7% to £39.2 million (2010: £37.8 million), a good performance given passenger trends which meant that NRI per passenger increased 4.2% to £4.10 (2010: £3.93). Growth in Stansted's retail income reflects particularly performance in car parking due to achieving higher yields per user.

Over the whole of 2011, the Group continues to expect growth in net retail income per passenger to moderate from recent levels to around 6% as disclosed in the investor report issued in June 2011.

2.2.2.3 Other income

Income from activities other than aeronautical and retail increased 2.2% to £239.3 million (2010: £234.2 million). This partly reflects rail income increasing 13.7% to £54.1 million (2010: £47.6 million) due to Heathrow Express passenger numbers increasing 10.9% to 3.04 million (2010: 2.74 million) and higher revenues from increased passenger volumes on the Piccadilly line extension to Terminal 5. Property rental income also increased 2.6% to £54.6 million (2010: £53.2 million) due to rent reviews implemented from April 2010. The remaining revenue streams included in other income declined 2.1% 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 six months ended 30 June 2011, adjusted operating costs increased 1.3% to £563.4 million (2010: £555.9 million).

<i>Six months ended 30 June</i>	2011	2010
	£m	£m
Employment costs	163.7	156.1
Maintenance expenditure	66.1	69.1
Utility costs	57.0	59.9
Rents and rates	63.0	57.3
General expenses	111.9	113.7
Retail expenditure	15.2	15.3
Intra-group charges/other	86.5	84.5
Total	563.4	555.9

The main drivers of the slightly higher adjusted operating costs were increased employment costs, rents and rates and intra-group charges. The trend in employment costs principally reflected 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. Higher rents and rates costs reflected a five yearly rates revaluation effective from April 2010 and an annual rates increase from April 2011. Intra-group charges applied to Heathrow were higher due to decentralisation of additional functions to other airports in the BAA group as well as pay rises within central functions. These increases were partially offset by lower maintenance expenditure in the first quarter, due to no recurrence of costs that arose due to severe winter weather in January 2010 and reduced utility costs due to lower gas prices and electricity consumption.

In the six months to 30 June 2011, adjusted operating costs were in line with forecast and, as previously reported, the rate of year on year growth in adjusted operating costs is expected to increase as the year progresses due to cost increases, particularly related to one-off projects such as the recently announced IT outsourcing contract, being weighted to the later parts of the year.

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 2011, Adjusted EBITDA increased 27.1% to £510.5 million (2010: £401.7 million), resulting in an Adjusted EBITDA margin of 47.5% (2010: 41.9%).

The significant increase in Adjusted EBITDA from the comparable period of 2010 reflects improved underlying traffic, increased aeronautical and retail income per passenger, good cost control and no recurrence of 2010's volcanic ash and strike disruptions. Taking into account the financial impact of disruptions in the first six months of 2010, previously estimated at £38.0 million, Adjusted EBITDA increased 16.1% to £510.5 million (2010: £439.7 million).

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 28.2% to £471.3 million (2010: £367.7 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 15.3% to £39.2 million (2010: £34.0 million) due principally to higher tariffs, increased car parking income and lower operating costs.

2.2.5 Exceptional items

In the six months ended 30 June 2011, there was a total net £11.6 million pre-tax credit (2010: £54.4 million credit) to the profit and loss account in respect of exceptional items. This reflected a £22.6 million credit related to the Group's share of the reduction in the BAA group's defined benefit pension scheme deficit (see section 2.4) partially offset by the accelerated depreciation and impairment charge of £11.0 million in relation to an impairment charge incurred on the Airtrack rail project which the Group has decided not to pursue.

2.2.6 Operating profit

The Group recorded an operating profit for the six months ended 30 June 2011 of £287.7 million (2010: £217.3 million). Relative to Adjusted EBITDA, operating profit includes £234.4 million in depreciation

(2010: £238.8 million). In addition, it reflects a net £11.6 million exceptional credit included in operating profit (2010: £54.4 million credit). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

<i>Six months ended 30 June</i>	2011 £m	2010 £m	Change (%)
Adjusted EBITDA	510.5	401.7	27.1
Depreciation – ordinary	(234.4)	(238.8)	(1.8)
Depreciation and impairment – exceptional	(11.0)	(18.7)	(41.2)
Exceptional items – pensions	22.6	76.7	(70.5)
Exceptional items – other	-	(3.6)	205.6
Operating profit	287.7	217.3	32.4

2.2.7 Taxation

The tax credit for the six months ended 30 June 2011 results in an effective tax rate for the period of 47.7% (30 June 2010: 7.0%). This reflects a tax credit arising on ordinary activities of £106.8 million (30 June 2010: £19.5 million) and a tax credit of £12.0 million (30 June 2010: £nil) due to the further reduction in the rate of corporation tax from 1 April 2011.

The tax credit for the six months ended 30 June 2011 on ordinary activities results in an effective tax rate of 42.9% (30 June 2010: 7.0%). This credit is calculated by applying the forecast estimated average annual effective tax rate for each entity to the results for the six months ended 30 June 2011. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 26.5% primarily due to the impact of phasing results through the year and permanent differences arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary as those proportions change.

On 23 March 2011, the Government announced its intention to introduce legislation to reduce the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. The reduction in the rate to 26% was substantively enacted on 29 March 2011 and as a result the Group's deferred tax balances, that were previously provided at 27%, were re-measured at the rate of 26%. This has resulted in a reduction in the net deferred tax liability of £10.0 million, with £12.0 million credited to the profit and loss account and £2.0 million charged to reserves. The reduction in the rate to 25% was enacted in the Finance Act 2011 on 19 July 2011. As a result, the Group's deferred tax balances, which are currently provided at 26% will be re-measured at the rate of 25% for the year ended 31 December 2011. Had this change been enacted at 30 June 2011, this would have further reduced the net deferred tax liability by £10.0 million, with £12.0 million credited to the profit and loss account and £2.0 million charged to reserves.

2.3 Cash flow

2.3.1 Summary cash flow

<i>Six months ended 30 June</i>	2011 £m	Restated ⁽¹⁾ 2010 £m
Net cash inflow from operating activities	469.6	398.4
Net interest paid	(172.3)	(178.1)
Taxation – group relief (paid)/received	(15.9)	1.0
Cash flow after interest and tax	281.4	221.3
Net capital expenditure	(431.1)	(386.9)
Disposal of subsidiary	(4.5)	(121.5)
Net cash outflow before management of liquid resources and financing	(154.2)	(287.1)
Management of liquid resources	(6.7)	88.5
Prepayment of derivative interest	-	(36.7)
Cancellation of derivatives	(53.1)	(73.9)
Proceeds of equity issue	-	217.4
Movement in borrowings and other financing flows	210.5	98.5
(Decrease)/increase in net cash	(3.5)	6.7

(1) The presentation of certain balances for the six months ended 30 June 2010 has been restated to be consistent with current period disclosures

2.3.2 Cash flow from operating activities

Net cash inflow from operations in the six months ended 30 June 2011 increased 17.9% to £469.6 million (2010: £398.4 million) which compares with Adjusted EBITDA of £510.5 million (2010: £401.7 million). The reduced conversion of Adjusted EBITDA to operating cash flow in 2011 primarily reflects an increase in debtors including as a result of the increased tariffs implemented from 1 April 2011 and minor changes in the timing of receipts around the period end.

2.3.3 Capital expenditure

In the six months ended 30 June 2011, the Group invested £431.1 million in capital expenditure (2010: £386.9 million) with £421.0 million at Heathrow (2010: £376.3 million) and £10.1 million at Stansted (2010: £10.6 million).

The most significant areas of capital expenditure at Heathrow were on the second phase of the satellite building for the new Terminal 2, the new main Terminal 2 building, information technology, the transfer baggage tunnel between Terminals 3 and 5 and Terminal 5C.

2.4 Pension scheme

At 30 June 2011, the Group's share of the BAA defined benefit pension scheme deficit (attributable to the Group under the BAA group's shared services agreement) remained unchanged from the position at 31 March 2011 at £13.9 million as there was no material change in the scheme deficit in the second quarter of 2011.

2.5 Recent financing activity

During the second quarter of 2011, the Group continued to strengthen significantly its capital structure, completing approximately £1.5 billion in long-term bond issues that have enabled its refinancing facility, which amounted to £4.4 billion as recently as November 2009, to be almost fully repaid. Just £152.4 million of this facility remained outstanding at 30 June 2011.

The highlight of the recent financing activity was the Group's debut US\$1 billion bond that was completed successfully in June 2011 despite testing market conditions. This is 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 its existing successful Sterling and Euro issuance programmes. The bond was fully hedged into Sterling generating proceeds of £616.2 million.

In addition, two sterling bond issues were completed in May 2011. The first was a £750.0 million thirty-year Class A bond issue that generated proceeds of £737.4 million (reflecting issuance at a discount). The second transaction was a re-opening of the existing index-linked bond with scheduled redemption date in December 2039 that generated proceeds of £154.3 million.

In addition to repaying a significant proportion of the refinancing facility, part of the bond issue proceeds were utilised in reducing drawings under the Group's revolving capital expenditure facility and cancelling part of its interest rate swap portfolio.

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 the first half of 2011, the Group's nominal net debt increased 2.1% to £10,128.2 million at 30 June 2011 from £9,921.2 million at 31 December 2010. The reported increase was lower than the underlying trend due to the injection into the Group, by way of inter-company loan, of £134.8 million from elsewhere

in the BAA group as part of its normal cash management activities in order to optimise short term cash utilisation.

The Group's nominal net debt at 30 June 2011 comprised £7,799.7 million outstanding under bond issues, £152.4 million outstanding under the bank refinancing facility, £1,988.2 million outstanding under other bank facilities, £238.2 million in index-linked derivative accretion and cash and current asset investments of £50.3 million. Nominal net debt comprised £9,027.0 million in senior net debt and £1,101.2 million in junior debt.

The accounting value of the Group's net debt at 30 June 2011 was £10,118.1 million (31 December 2010: £9,910.5 million).

The average cost of the Group's external gross debt at 30 June 2011 was 4.22% (31 December 2010: 4.44%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion.

At 30 June 2011, the Group had approximately £1.75 billion in undrawn bank facilities and cash resources. Together with the Group's expected operating cash flows, the Group has sufficient liquidity to meet in full its capital investment programme, debt service costs and its debt maturities until 2013.

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 £500.0 million of gross debt and £0.2 million of cash held at BAA (SH), BAA (SH)'s consolidated net debt at 30 June 2011 was £10,628.0 million, an increase of 2.2% 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 30 June 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
30 June 2011	12,019.5	1,354.3	13,373.8

The increase in the total RAB during the six months ended 30 June 2011 reflected the addition of approximately £440 million in capital expenditure partially offset by regulatory depreciation of around £275 million. Variation in RAB profiling adjustments added a further £50 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £385 million over the period.

2.6.4 Net interest payable and net interest paid

In the six months ended 30 June 2011, the Group's net interest payable was £393.0 million (2010: £330.3 million) excluding fair value losses on financial instruments. Underlying net interest payable was £379.9 million (2010: £313.6 million), excluding £14.8 million (2010: £10.0 million) in capitalised interest and £27.9 million (2010: £26.7 million) in non-cash amortisation of financing fees and bond fair value adjustments.

Within interest payable is also recorded a non-cash net fair value loss on financial instruments of £143.9 million (2010: £76.9 million) that reflects principally the impact on the valuation of index-linked swaps of the increase between 31 December 2010 and 30 June 2011 in implied future inflation rates. The increased charge relative to 2010 reflects primarily the larger portfolio of such swaps in place in 2011.

Net interest paid in the six months ended 30 June 2011 was £172.3 million (2010: £178.1 million). This consisted of £155.1 million (2010: £160.2 million) paid in relation to external debt and £17.2 million (2010: £17.9 million) under the debenture between BAA (SP) and BAA (SH). The reduction in external interest paid is primarily due to the cancellation of interest rate swaps in 2010 and receipts in 2011 under the new index-linked swaps, partially offset by interest on new loans entered into during the latter part of 2010, such as the Class B facility. Interest paid on the debenture in 2011 reflects funding of initial interest payments on BAA (SH)'s new bond issue and loan facility and payment of interest that had accrued prior to completion of BAA (SH)'s refinancing in November 2010.

Net interest paid is lower than underlying net interest payable primarily due to an amortisation charge of £33.9 million (2010: £70.6 million) relating to prepayments of derivative interest and a £128.3 million non-cash charge (2010: £41.2 million) relating to accretion on index-linked instruments.

2.6.5 Financial ratios

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

At 30 June 2011, the Group's senior and junior gearing ratios (nominal net debt to RAB) were 67.5% and 75.7% respectively (31 December 2010: 68.8% and 77.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Taking into account the debt and cash held at BAA (SH), the gearing ratio was 79.5% (31 December 2010: 81.4%) compared to a covenant level of 90.0% under BAA (SH)'s financing agreements. The reduction in gearing ratios since 31 December 2010 reflects primarily the retention of operating cash flow in the Group, the impact on the RAB of inflation referred to in section 2.6.3 and the cash injected into the Group referred to in section 2.6.1. It is expected that this cash injection will be reversed in the coming weeks as part of the BAA group's normal cash management activities, reversing the benefit to gearing ratios of around 1% of RAB.

2.7 Outlook

The Group has continued the strong operational and financial performance seen since the beginning of 2011. As a result, the Group continues to expect turnover and Adjusted EBITDA for 2011 as a whole to be consistent with the forecasts set out in the investor report issued in June 2011 at £2.3 billion and £1.12 billion respectively.

Appendix 1 – Financial information

BAA (SP) Limited

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

	Note	Unaudited Six months ended 30 June 2011 £m	Unaudited Six months ended 30 June 2010 £m	Audited Year ended 31 December 2010 £m
Turnover – continuing operations	1	1,073.9	957.6	2,074.3
Operating costs – ordinary		(797.8)	(794.7)	(1,584.1)
Operating gain – exceptional: pensions	2	22.6	76.7	89.9
Operating costs – exceptional: other	2	(11.0)	(22.3)	(31.4)
Total operating costs		(786.2)	(740.3)	(1,525.6)
Operating profit – continuing operations	1	287.7	217.3	548.7
Impairment of tangible fixed assets – exceptional	2	-	(104.4)	(149.3)
Gain on disposal of Gatwick airport – discontinued operations	2	-	14.6	16.2
Interest receivable and similar income	3	106.4	76.1	162.2
Interest payable and similar charges	3	(499.4)	(406.4)	(858.6)
Fair value loss on financial instruments	3	(143.9)	(76.9)	(35.8)
Net interest payable and similar charges		(536.9)	(407.2)	(732.2)
Loss on ordinary activities before taxation		(249.2)	(279.7)	(316.6)
Tax credit/(charge) on loss on ordinary activities	4	118.8	19.5	(5.2)
Loss on ordinary activities after taxation		(130.4)	(260.2)	(321.8)

BAA (SP) Limited

Consolidated balance sheet as at 30 June 2011

	Note	Unaudited 30 June 2011 £m	Unaudited 30 June 2010 £m	Audited 31 December 2010 £m
Fixed assets				
Tangible fixed assets		11,905.8	11,468.3	11,678.2
Financial assets – derivative financial instruments		389.9	461.2	551.7
Total fixed assets		12,295.7	11,929.5	12,229.9
Current assets				
Stocks		6.7	5.2	5.5
Debtors		400.2	323.9	357.7
Financial assets – derivative financial instruments		218.0	0.2	0.1
Current asset investments		47.7	146.0	41.0
Cash at bank and in hand		2.6	10.7	6.1
Total current assets		675.2	486.0	410.4
Current liabilities				
Creditors: amounts falling due within one year	5	(1,513.9)	(2,441.2)	(586.2)
Net current liabilities		(838.7)	(1,955.2)	(175.8)
Total assets less current liabilities		11,457.0	9,974.3	12,054.1
Creditors: amounts falling due after more than one year	5	(10,755.5)	(9,031.9)	(11,060.1)
Deferred tax		(148.5)	(185.5)	(271.1)
Provisions for liabilities and charges – pensions		(30.7)	(66.5)	(53.3)
Provisions for liabilities and charges – other		(23.0)	(46.9)	(33.7)
Net assets		499.3	643.5	635.9
Capital and reserves				
Called up share capital		11.0	11.0	11.0
Share premium reserve		499.0	499.0	499.0
Revaluation reserve		1,487.5	1,439.8	1,470.9
Merger reserve		(4,535.6)	(4,535.6)	(4,535.6)
Fair value reserve		(197.5)	(196.7)	(174.7)
Profit and loss reserve		3,234.9	3,426.0	3,365.3
Total shareholder's funds		499.3	643.5	635.9

BAA (SP) Limited

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

	Note	Unaudited Six months ended 30 June 2011 £m	Restated ¹ Unaudited Six months ended 30 June 2010 £m	Audited Year ended 31 December 2010 £m
Operating profit – continuing operations		287.7	217.3	548.7
<i>Adjustments for:</i>				
Depreciation (including exceptional depreciation and impairment)		245.4	257.5	495.4
(Gain)/loss on disposal of tangible fixed assets		(0.2)	0.3	0.3
<i>Working capital changes:</i>				
(Increase)/decrease in stock and debtors		(26.0)	9.0	(4.5)
Increase in creditors		9.5	13.2	18.0
Decrease in provisions		(6.2)	(9.2)	(17.0)
Difference between pension charge and cash contributions		(18.0)	(13.0)	(32.5)
Exceptional pension credit		(22.6)	(76.7)	(89.9)
Net cash inflow from operating activities – continuing		469.6	398.4	918.5
Net interest paid		(172.3)	(178.1)	(393.8)
Taxation – group relief (paid)/received		(15.9)	1.0	(17.1)
Net capital expenditure		(431.1)	(386.9)	(841.1)
Disposal of subsidiary – proceeds	2	-	-	1.4
Disposal of subsidiary – pension and disposal costs		(4.5)	(121.5)	(126.7)
Net cash outflow before use of liquid resources and financing		(154.2)	(287.1)	(458.8)
Management of liquid resources		(6.7)	88.5	193.5
Issuance of bonds	5	1,507.9	-	830.1
Drawdown of Class B facility	5	-	-	625.0
(Repayment)/drawdown of capital expenditure facility	5	(250.0)	75.0	600.0
Repayment of other facilities and other items	5	(1,167.2)	(119.5)	(1,037.5)
Drawdown/(repayment) of amount owed to BAA (SH) plc	5	134.8	-	(1,000.0)
Settlement of accretion on index-linked swaps		(15.0)	-	-
Cancellation of derivatives		(53.1)	(73.9)	(73.9)
Prepayment of derivative interest		-	(36.7)	(36.7)
Restricted cash		-	143.0	143.0
Issuance of ordinary share capital		-	217.4	217.4
Net cash inflow from financing		157.4	205.3	267.4
(Decrease)/increase in cash		(3.5)	6.7	2.1

1. The presentation of certain balances for the six months ended 30 June 2010 has been restated to be consistent with current period disclosures.

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 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 2010 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 2010. The auditors' report on the 2010 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 is consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2010.

BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2011

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	Unaudited	Audited
	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
	£m	£m	£m
Heathrow	963.8	851.6	1,844.7
Stansted	110.1	106.0	229.6
Total	1,073.9	957.6	2,074.3

Operating profit	Unaudited	Unaudited	Audited
	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
	£m	£m	£m
Heathrow	262.3	187.4	482.0
Stansted	22.5	27.0	61.0
Other entities ¹	2.9	2.9	5.7
Total	287.7	217.3	548.7

Net assets/(liabilities)	Unaudited	Unaudited	Audited
	30 June 2011	30 June 2010	31 December 2010
	£m	£m	£m
Heathrow	1,664.8	1,699.0	1,676.4
Stansted	938.5	906.5	933.5
Other entities ¹	(2,104.0)	(1,961.8)	(1,974.0)
Other adjustments ²	-	(0.2)	-
Total	499.3	643.5	635.9

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

² 'Other adjustments' relate to the elimination of inter-company transactions and consolidation adjustments.

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 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

Unaudited Six months ended 30 June 2010	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation ¹ £m	Operating profit £m
Heathrow	364.9	41.6	(219.1)	187.4
Stansted	34.0	12.7	(19.7)	27.0
Other entities and adjustments ²	2.8	0.1	-	2.9
Total	401.7	54.4	(238.8)	217.3

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.

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.

BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2011

2 Operating and non-operating exceptional items

	Unaudited Six months ended 30 June 2011 £m	Unaudited Six months ended 30 June 2010 £m	Restated ¹ Audited Year ended 31 December 2010 £m
Operating costs – exceptional: pension			
Pension credit	22.6	76.7	89.9
Operating costs – exceptional: other			
Accelerated depreciation and impairment	(11.0)	(18.7)	(18.7)
Reorganisation costs	-	(3.6)	(12.7)
Total operating exceptional items	11.6	54.4	58.5
Exceptional impairment of tangible fixed assets	-	(104.4)	(149.3)
Gain on disposal of Gatwick airport – discontinued operations	-	14.6	16.2
Total non-operating exceptional items	-	(89.8)	(133.1)
Taxation on exceptional items	(5.9)	(15.2)	(15.8)
Total exceptional items	5.7	(50.6)	(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 Group defined benefit pension schemes on behalf of BAA Airports Limited.

The Group's airports and HEX have had a legal obligation since August 2008 to fund their share of the BAA Group defined benefit pension scheme deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits pension related liabilities under the SSA. These provisions are based on the relevant share of the actuarial deficit and allocated on the basis of pensionable salaries. Movements in these provisions are recorded as exceptional items due to their unusual nature and will only be settled when the cash outflows are requested by BAA Airports Limited.

For the six months ended 30 June 2011 an exceptional pension credit of £22.6 million (six months ended 30 June 2010: £76.7 million; year ended 31 December 2010: £90.9 million) was recognised in relation to exceptional pensions costs in respect of the push down of the Group's share of the reduction in the deficit on the BAA Group defined benefit pension scheme in accordance with the SSA. For the year ended 31 December 2010 a £1.0 million charge was also incurred in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits.

Operating costs – exceptional: other

The accelerated depreciation and impairment charge of £11.0 million (2010: £18.7 million – accelerated depreciation) in 2011 was in relation to an impairment charge on the Airtrack rail project which the Group has decided not to pursue. In 2010 the accelerated depreciation charge was due to the shortened lives of certain existing assets at Heathrow given the new Heathrow Terminal 2 development. No depreciation has been treated as exceptional since the second quarter of 2010 at which time Terminal 1's remaining useful life was reassessed and extended.

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

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.

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.

BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2011

3 Net interest payable and similar charges

	Unaudited Six months ended 30 June 2011 £m	Unaudited Six months ended 30 June 2010 £m	Audited Year ended 31 December 2010 £m
Interest receivable			
Interest receivable on derivatives not in hedge relationship	106.3	75.7	160.3
Interest receivable from other group undertakings	-	-	1.1
Interest on bank deposits	0.1	0.4	0.8
	106.4	76.1	162.2
Interest payable and similar charges			
Interest on borrowings:			
Bonds and related hedging instruments ¹	(214.5)	(189.3)	(387.2)
Bank loans and overdrafts and related hedging instruments	(85.1)	(89.5)	(193.5)
Interest payable on derivatives not in hedge relationship ²	(177.8)	(86.8)	(214.1)
Facility fees	(11.5)	(13.2)	(26.8)
Interest on debenture payable to BAA (SH) plc	(25.3)	(37.6)	(59.7)
	(514.2)	(416.4)	(881.3)
Less capitalised interest ³	14.8	10.0	22.7
	(499.4)	(406.4)	(858.6)
Net interest payable before fair value loss	(393.0)	(330.3)	(696.4)
Fair value loss on financial instruments			
Interest rate swaps: cash flow hedge ⁴	6.7	(3.5)	(6.3)
Index-linked swaps: not in hedge relationship ⁵	(161.5)	(71.9)	(35.5)
Cross-currency swaps: cash flow hedge ⁴	3.0	(0.9)	6.0
Cross-currency swaps: fair value hedge ⁴	7.8	0.4	0.7
Fair value re-measurements of foreign exchange contracts and currency balances	0.1	(1.0)	(0.7)
	(143.9)	(76.9)	(35.8)
Net interest payable and similar charges	(536.9)	(407.2)	(732.2)

¹ Includes accretion of £7.5 million (six months ended 30 June 2010: £6.5 million; year ended 31 December 2010: £11.8 million) on index-linked bonds.

² Includes accretion of £120.8 million (six months ended 30 June 2010: £34.7 million; year ended 31 December 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 2.27% (six months ended 30 June 2010: 2.22%; year ended 31 December 2010: 2.22%) to expenditure incurred on such assets.

⁴ Hedge ineffectiveness on derivatives in hedge relationship.

⁵ Reflects principally the impact on the valuation of an increase in implied future inflation rates.

4 Tax on loss on ordinary activities

The tax credit for the six months ended 30 June 2011 results in an effective tax rate for the period of 47.7% (30 June 2010: 7.0%). This reflects a tax credit arising on ordinary activities of £106.8 million (30 June 2010: £19.5 million) and a tax credit of £12.0 million (30 June 2010: £nil) due to the further reduction in the rate of corporation tax from 1 April 2011.

The tax credit for the six months ended 30 June 2011 on ordinary activities results in an effective tax rate of 42.9%. This credit is calculated by applying the forecast estimated average annual effective tax rate for each entity to the results for the six months ended 30 June 2011. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 26.5% primarily due to the impact of phasing results through the year and permanent differences arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary as those proportions change.

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

BAA (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2011

4 Tax on loss on ordinary activities *continued*

On 23 March 2011, the Government announced its intention to introduce legislation to reduce the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. The reduction in the rate to 26% was substantively enacted on 29 March 2011 and as a result the Group's deferred tax balances, that were previously provided at 27%, were re-measured at the rate of 26%. This has resulted in a reduction in the net deferred tax liability of £10.0 million, with £12.0 million credited to the profit and loss account and £2.0 million charged to reserves. The reduction in the rate to 25% was enacted in the Finance Act 2011 on 19 July 2011. As a result, the Group's deferred tax balances, which are currently provided at 26% will be re-measured at the rate of 25% for the year ended 31 December 2011. Had this change been enacted at 30 June 2011, this would have further reduced the net deferred tax liability by £10.0 million, with £12.0 million credited to the profit and loss account and £2.0 million charged to reserves.

5 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £928.1 million and £nil respectively (30 June 2010: £1,822.4 million and £0.8 million respectively; 31 December 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 £9,940.9 million and £812.7 million respectively (30 June 2010: £8,527.6 million and £500.7 million respectively; 31 December 2010: £10,484.3 million and £573.1 million respectively).

	Unaudited 30 June 2011 £m	Unaudited 30 June 2010 £m	Audited 31 December 2010 £m
Current borrowings			
Secured			
Syndicated term facility	-	217.5	-
Bank loans	39.1	39.1	39.1
Bonds:			
3.975% €1,000 million due 2012	889.0	-	-
Unsecured			
Debenture payable to BAA (SH) plc	-	1,565.8	
Total current borrowings	928.1	1,822.4	39.1
Non-current borrowings			
Secured			
Syndicated term facility	151.7	1,945.9	1,292.2
Capital expenditure facility	1,050.0	775.0	1,300.0
Other bank loans	887.9	311.1	907.2
	2,089.6	3,032.0	3,499.4
Secured			
Bonds:			
3.975% €1,000 million due 2012	-	783.7	832.3
5.850% £400 million due 2013	376.8	371.0	373.9
4.600% €750 million due 2014	614.1	568.0	593.9
12.450% £300 million due 2016	361.9	372.4	367.2
4.125% €500 million due 2016	432.2	-	413.6
4.600% €750 million due 2018	606.2	535.0	567.6
6.250% £400 million due 2018	397.0	-	396.8
9.200% £250 million due 2021	281.7	283.9	282.8
4.875% US\$1,000 million due 2021	586.6	-	-
5.225% £750 million due 2023	621.3	614.6	618.0
6.750% £700 million due 2026	689.6	689.3	689.4
7.075% £200 million due 2028	197.5	197.4	197.4
6.450% £900 million due 2031	840.1	838.9	839.5
3.334%+RPI £365 million due 2039 ¹	408.5	241.4	246.7
5.875% £750 million due 2041	737.2	-	-
	7,150.7	5,495.6	6,419.1
Unsecured			
Debenture payable to BAA (SH) plc	700.6	-	565.8
Total non-current borrowings	9,940.9	8,527.6	10,484.3
Total borrowings	10,869.0	10,350.0	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 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

Analysis of turnover and operating costs for the six months ended 30 June 2010

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	450.0	-	450.0	57.3	507.3
Retail income	178.3	-	178.3	37.8	216.1
Car parking	32.6	-	32.6	15.2	47.8
Duty and tax-free	43.4	-	43.4	5.6	49.0
Airside specialist shops	33.5	-	33.5	3.0	36.5
Bureaux de change	17.2	-	17.2	3.5	20.7
Catering	14.2	-	14.2	4.3	18.5
Landside shops and bookshops	9.3	-	9.3	2.2	11.5
Advertising	14.3	-	14.3	1.1	15.4
Car rental	5.5	-	5.5	1.2	6.7
Other	8.3	-	8.3	1.7	10.0
Operational facilities and utilities income	73.6	-	73.6	5.0	78.6
Property rental income	49.2	-	49.2	4.0	53.2
Rail income	47.6	-	47.6	-	47.6
Other income	50.1	-	50.1	1.9	52.0
HEX inter-company elimination	(27.3)	30.1	2.8	-	2.8
Total income	821.5	30.1	851.6	106.0	957.6
Operating costs					
Employment costs	121.1	9.3	130.4	25.7	156.1
Maintenance expenditure	55.9	7.7	63.6	5.5	69.1
Utility costs	48.7	1.1	49.8	10.1	59.9
Rents and rates	49.8	1.2	51.0	6.3	57.3
General expenses	92.6	6.8	99.4	14.3	113.7
Retail expenditure	11.0	-	11.0	4.3	15.3
Intra-group charges/other	107.3	1.2	108.5	5.8	114.3
Loss on disposal of fixed assets	0.3	-	0.3	-	0.3
HEX inter-company elimination	(30.1)	-	(30.1)	-	(30.1)
Adjusted operating costs	456.6	27.3	483.9	72.0	555.9
Depreciation	219.1	-	219.1	19.7	238.8
Exceptional items	(41.6)	(0.1)	(41.7)	(12.7)	(54.4)
Total operating costs	634.1	27.2	661.3	79.0	740.3
Adjusted EBITDA	364.9	2.8	367.7	34.0	401.7