

# News Release

26 October 2011

## BAA (SP) Limited

### Results for the nine months ended 30 September 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 monthly Heathrow passenger traffic since April 2011**
- **Passenger traffic up 4.3% at 66.7 million with 6.1% growth at Heathrow (2.4% underlying)**
- **Revenue up 10.2% and Adjusted EBITDA up 17.1%**
- **Strong financial performance reflects improved underlying traffic, increased revenue per passenger, cost control and no recurrence of 2010's volcanic ash and strike disruptions**
- **Judicial review requested in relation to the Competition Commission's continued demand that Stansted is sold with BAA separately announcing Edinburgh as the Scottish airport to be sold**

At or for nine months ended 30 September	2011	2010	Change (%)
<i>(figures in £m unless otherwise stated)</i>			
Revenue	<b>1,703.3</b>	1,545.5	10.2
Adjusted EBITDA <sup>(1)</sup>	<b>842.2</b>	719.0	17.1
Cash generated from operations	<b>799.9</b>	690.1	15.9
Adjusted pre-tax loss <sup>(2)</sup>	<b>(100.0)</b>	(156.9)	(36.3)
Pre-tax loss	<b>(147.3)</b>	(192.6)	(23.5)
BAA (SP) Limited consolidated net debt <sup>(3)(4)</sup>	<b>10,351.0</b>	9,921.2	4.3
BAA (SH) plc consolidated net debt <sup>(3)(4)</sup>	<b>10,850.5</b>	10,401.1	4.3
Regulatory Asset Base <sup>(4)</sup>	<b>13,633.4</b>	12,776.0	6.7
Passengers (m) <sup>(5)</sup>	<b>66.7</b>	64.0	4.3
Net retail income per passenger <sup>(5)(6)</sup>	<b>£5.42</b>	£5.11	6.2

(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 excluding intra-BAA group loans and including index-linked accretion

(4) 2010 net debt and RAB figures are as at 31 December 2010

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

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

Colin Matthews, Chief Executive Officer of BAA, said:

"Our strong financial performance was driven by underlying growth in passenger numbers, higher revenue per passenger, continued cost control and no recurrence of the volcanic ash and strike disruptions of 2010.

We are focused on progressively improving passengers' experience and the service we offer airlines at Heathrow. The new Terminal 2 is rapidly taking shape and work is continuing on a baggage transfer system which will move bags faster between Terminals 3 and 5. Our investment in these projects reflects our commitment to ensuring Heathrow's future as Europe's leading hub airport."

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There will be a conference call today at 3.00 pm (UK 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 nine months ended 30 September 2011. The call will be hosted by Jose Leo, BAA's Chief Financial Officer. 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: 380024) as it is used during the call at:

<https://arkadin-event.webex.com/arkadin-event/onstage/g.php?t=a&d=703918291>

## BAA (SP) Limited

### Consolidated results for the nine months ended 30 September 2011

#### Index

<b>1</b>	<b>Key business developments</b>
1.1	Passenger traffic
1.2	Investment in modern airport facilities
1.3	Competition Commission inquiry into the supply of UK airport services by BAA
<b>2</b>	<b>Financial review</b>
2.1	Basis of preparation
2.2	Profit and loss account
2.3	Cash flow
2.4	Pension scheme
2.5	Recent financing activity
2.6	Financing position
2.7	Outlook

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 nine months ended 30 September 2011 at the Group's airports is analysed below:

<i>(figures in millions unless otherwise stated)</i>	2011	2010	Change (%) <sup>(1)</sup>
<b>Passengers by airport</b>			
Heathrow	52.6	49.6	6.1
Stansted	14.1	14.4	(2.1)
<b>Passengers by market served</b>			
UK	4.7	5.0	(5.7)
Europe <sup>(2)</sup>	34.2	32.7	4.3
Long haul	27.9	26.3	6.1
<b>Total passengers<sup>(1)</sup></b>	<b>66.7</b>	<b>64.0</b>	<b>4.3</b>

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

(2) Includes North African charter traffic

In the nine months ended 30 September 2011, combined passenger traffic at Heathrow and Stansted increased 4.3% to 66.7 million (2010: 64.0 million) with Heathrow up 6.1% and Stansted down 2.1%. Reported year on year performance was influenced by external factors in 2010 including 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 0.8% with Heathrow up 2.4% and Stansted down 4.5%.

Heathrow's traffic increased 6.1% to 52.6 million (2010: 49.6 million) due to no recurrence of 2010's disruptions together with strong underlying traffic, with every month since April recording the highest ever traffic for that particular month. This performance reflects Heathrow's position as a major European hub and its broad international links, in both European and long haul markets. Growth in the year to date has been particularly strong in markets such as the United States (particularly expansion of services to New York and Boston and new routes such as San Diego), Germany (particularly Frankfurt, Berlin and Munich), Switzerland, France and Brazil (primarily significantly greater frequency).

Over the whole nine months, of Heathrow's major markets, European scheduled traffic showed the most significant year on year growth, increasing 8.3% to 19.9 million passengers (2010: 18.4 million). Most recently, the relative performance of North Atlantic traffic has improved significantly with its traffic up 7.7%

to 12.0 million (2010: 11.2 million) driven by the success of American Airlines' and British Airways' joint transatlantic services launched in March 2011 and new routes introduced by Delta. The proportion of origin and destination traffic at Heathrow remained broadly constant at 65% (2010: 64%) over the first nine months of 2011.

Stansted's reported traffic declined 2.1% to 14.1 million (2010: 14.4 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 4.5%, reflecting airlines' redeployment of capacity from the UK to other European markets. Most of Stansted's traffic decline in 2011 has been in the domestic market and, excluding that, traffic was down only 0.6% to 13.0 million (2010: 13.1 million). Further, in recent months Stansted has seen record load factors suggesting gradually more positive demand dynamics.

## 1.2 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 September 2011, approximately 95% of the steelwork for the main terminal building was complete and 25% of the roof had been installed. 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 is making good progress. 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 in the first quarter of 2012.

Interior works on the main terminal building are underway with 50% of the suspended floors constructed. In addition, installation of ductwork underneath the four floors of the terminal has commenced. Fit out work on the terminal will continue through 2012 and 2013.

Work on the aircraft stands including installation of fuel, electrical and communications pipes and ducts and final pavement construction has progressed well in recent months and at 30 September 2011 was approximately 25% complete.

In parallel with the progress on the main terminal building, work continues on the second phase of its satellite building with construction of the extensive basement structures to house the tracked transit and baggage systems and tunnels. These systems and tunnels will connect the satellite to the main building, once the main terminal's second phase is constructed. 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. Work on site commenced in May 2011 with ground works and piling underway for the arrivals and departures ramps and the new Terminal 3 approach road. Design work for the car park structure is near completion with construction expected to start before the end of 2011.

In relation to Heathrow's baggage systems, testing and commissioning of the underground automated baggage transfer system between Terminals 3 and 5 has taken place. 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 is on-going. In the coming weeks, operational trials will be taking place with full live operation of the facility expected by the end of 2011.

Elsewhere in Heathrow's baggage investment programme, enabling work for the proposed new integrated baggage system for Terminal 3 has continued and installation of steelwork for the main building has started. Definition of the scope, cost and schedule for full project execution remains on-going.

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

BAA has issued proceedings at the Competition Appeal Tribunal ('CAT') for the judicial review of the Competition Commission's ('CC') decision regarding material changes in circumstances since the CC's

report of March 2009 requiring the sale of Stansted Airport. The CAT hearing to consider the judicial review case will be held in December 2011. Meanwhile, on 7 October 2011, the CC decided to reverse the order of disposals. This means that the disposal of a Scottish airport will precede the proposed disposal of Stansted. As a result, on 19 October 2011 BAA announced the nomination of Edinburgh airport as the Scottish airport to be sold. Draft Final Undertakings from BAA to put this into effect have been published by the CC for consultation. BAA in principle agrees with the draft undertakings.

## 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>Nine months ended 30 September</i>	<b>2011</b> £m	2010 £m
<b>Group turnover</b>	<b>1,703.3</b>	1,545.5
Adjusted operating costs <sup>(1)</sup>	<b>(861.1)</b>	(826.5)
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>842.2</b>	719.0
Operating gain/(costs) – exceptional – pensions <sup>(3)</sup>	<b>36.6</b>	96.6
Operating costs – exceptional – other <sup>(3)</sup>	-	(11.7)
<b>EBITDA</b>	<b>878.8</b>	803.9
Depreciation – ordinary	<b>(356.8)</b>	(356.5)
Depreciation and impairment – exceptional <sup>(3)</sup>	<b>(11.0)</b>	(18.7)
<b>Operating profit</b>	<b>511.0</b>	428.7
Gain on disposal of Gatwick airport – discontinued operations	-	14.6
Exceptional impairment of fixed assets	-	(104.4)
Net interest payable and similar charges	<b>(585.4)</b>	(519.4)
Fair value loss on financial instruments	<b>(72.9)</b>	(12.1)
Total net interest payable and similar charges	<b>(658.3)</b>	(531.5)
<b>Loss on ordinary activities before taxation</b>	<b>(147.3)</b>	(192.6)
Tax credit on loss on ordinary activities	<b>51.7</b>	34.3
<b>Loss on ordinary activities after taxation</b>	<b>(95.6)</b>	(158.3)

(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 nine months ended 30 September 2011, turnover increased 10.2% to £1,703.3 million (2010: £1,545.5 million). This reflects increases of 14.2%, 10.0% and 1.0% in aeronautical income, retail income and other income respectively.

<i>Nine months ended 30 September</i>	<b>2011</b> £m	2010 £m	Change (%)
Aeronautical income	<b>956.7</b>	837.5	14.2
Retail income	<b>385.0</b>	350.1	10.0
Other income	<b>361.6</b>	357.9	1.0
<b>Total</b>	<b>1,703.3</b>	1,545.5	10.2

### 2.2.2.1 Aeronautical income

#### Aeronautical income by airport

<i>Nine months ended 30 September</i>	<b>2011</b> £m	2010 £m	Change (%)
Heathrow	<b>858.8</b>	742.1	15.7
Stansted	<b>97.9</b>	95.4	2.6
<b>Total</b>	<b>956.7</b>	837.5	14.2

In the nine months ended 30 September 2011, aeronautical income increased 14.2% to £956.7 million (2010: £837.5 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 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. As these trends are not expected to reverse in 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 its year on year decline in 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%.

With the level of the UK retail price index for August 2011 now known, 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 6.2% to £5.42 (2010: £5.11) in the nine months ended 30 September 2011, led by Heathrow where NRI per passenger was up 6.3%. The year on year increase in NRI per passenger was 3.5% in the third quarter.

This performance was based on gross retail income increasing 10.0% to £385.0 million (2010: £350.1 million) and NRI increasing 10.7% to £361.9 million (2010: £326.9 million).

#### Net retail income per passenger by airport<sup>(1)</sup>

<i>Nine months ended 30 September</i>	<b>2011</b> £	2010 £	Change (%)
Heathrow	<b>5.76</b>	5.42	6.3
Stansted	<b>4.17</b>	4.04	3.2
<b>Total</b>	<b>5.42</b>	5.11	6.2

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

At Heathrow, gross retail income increased 12.1% to £319.9 million (2010: £285.4 million) and NRI per passenger increased 6.3% to £5.76 (2010: £5.42). The performance was led by duty and tax-free, airside specialist shops, car parking and catering. 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 has also benefited from a further shift in passenger mix from domestic to international passengers.

Strength in duty and tax-free has been supported through 2011 by 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, strong trading in the luxury segment has continued in recent months despite the more difficult macroeconomic environment. 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 0.6% to £65.1 million (2010: £64.7 million), a good performance given passenger trends which meant that NRI per passenger increased 3.2% to £4.17 (2010: £4.04). Growth in Stansted's retail income reflects particularly performance in car parking due to achieving higher yields per user. Performance in bureaux de change and advertising has also supported Stansted's recent positive retail performance.

### 2.2.2.3 Other income

Income from activities other than aeronautical and retail increased 1.0% to £361.6 million (2010: £357.9 million). This partly reflects rail income increasing 10.7% to £81.5 million (2010: £73.6 million) due to Heathrow Express passenger numbers increasing 9.0% to 4.63 million (2010: 4.24 million) and higher revenues from increased passenger volumes on the Piccadilly line extension to Terminal 5. Property rental income also increased 1.6% to £82.4 million (2010: £81.1 million) due to rent reviews implemented from April 2010. The remaining revenue streams included in other income declined 2.7% 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 nine months ended 30 September 2011, adjusted operating costs increased 4.2% to £861.1 million (2010: £826.5 million).

<i>Nine months ended 30 September</i>	<b>2011</b> £m	2010 £m
Employment costs	<b>248.8</b>	230.1
Maintenance expenditure	<b>99.9</b>	100.2
Utility costs	<b>84.9</b>	85.9
Rents and rates	<b>99.2</b>	88.3
General expenses	<b>176.2</b>	172.3
Retail expenditure	<b>23.1</b>	23.2
Intra-group charges/other	<b>129.0</b>	126.5
<b>Total</b>	<b>861.1</b>	826.5

The main drivers of the increased adjusted operating costs were higher employment costs and rents and rates. Employment costs were up 8.1% 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 the second and third quarters of 2010.

In the nine months ended 30 September 2011, adjusted operating costs were in line with expectations. The rate of year on year growth in adjusted operating costs is currently expected to be only slightly higher at the full year than seen in the nine months ended 30 September 2011, at a level consistent with the forecast disclosed in the investor report issued in June 2011.

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

## 2.2.4 Adjusted EBITDA

In the nine months ended 30 September 2011, Adjusted EBITDA increased 17.1% to £842.2 million (2010: £719.0 million), resulting in an Adjusted EBITDA margin of 49.4% (2010: 46.5%).

The significant increase in Adjusted EBITDA from the comparable period of 2010 reflects improved underlying traffic, increased aeronautical and retail income per passenger, continued cost control and no recurrence of 2010's volcanic ash and strike disruptions. Taking into account the financial impact of disruptions in the first nine months of 2010, previously estimated at £38.0 million, Adjusted EBITDA increased 11.3% to £842.2 million (2010: £757.0 million). In the three months ended 30 September, when there were no major disruptions in either 2010 or 2011, Adjusted EBITDA increased 4.5% from £317.3 million in 2010 to £331.7 million in 2011.

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 18.6% to £769.5 million (2010: £648.6 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 3.3% to £72.7 million (2010: £70.4 million) due principally to higher tariffs and increased car parking and other income partially offset by increased employment costs.

## 2.2.5 Exceptional items

In the nine months ended 30 September 2011, there was a total net £25.6 million pre-tax credit (2010: £38.2 million charge) to the profit and loss account in respect of exceptional items. This reflected a £36.6 million credit related to the reversal of the Group's share of the BAA group's defined benefit pension scheme deficit recorded at 31 December 2010 as the scheme has now gone into a surplus position. This was 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 nine months ended 30 September 2011 of £511.0 million (2010: £428.7 million). Relative to Adjusted EBITDA, operating profit includes £356.8 million in depreciation (2010: £356.5 million). In addition, it reflects a net £25.6 million exceptional credit included in operating profit (2010: £66.2 million credit). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

<i>Nine months ended 30 September</i>	<b>2011</b> £m	2010 £m	Change (%)
Adjusted EBITDA	<b>842.2</b>	719.0	17.1
Depreciation – ordinary	<b>(356.8)</b>	(356.5)	0.1
Depreciation and impairment – exceptional	<b>(11.0)</b>	(18.7)	(41.2)
Exceptional items – pensions	<b>36.6</b>	96.6	(62.1)
Exceptional items – other	-	(11.7)	(100.0)
<b>Operating profit</b>	<b>511.0</b>	428.7	19.2

## 2.2.7 Taxation

The tax credit for the nine months ended 30 September 2011 results in an effective tax rate for the period of 35.1% (30 September 2010: 17.8%). This reflects a tax credit arising on ordinary activities of £27.7 million (30 September 2010: £22.1 million) and a tax credit of £24.0 million (30 September 2010: £12.2 million) due to the further reduction in the rate of corporation tax from 1 April 2011 and 1 April 2012.

The tax credit for the nine months ended 30 September 2011 on ordinary activities results in an effective tax rate of 18.8% (30 September 2010: 11.5%). This credit is calculated by applying the forecast estimated average annual effective tax rate for each entity to the results for the nine months ended 30 September 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 for further reductions in the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. Both the reductions in the corporation tax rate have been substantively enacted at the reporting date and as a result the Group's deferred tax balances, which were previously provided at 27%, were 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

<i>Nine months ended 30 September</i>	<b>2011</b> <b>£m</b>	2010 £m
Net cash inflow from operating activities	<b>799.9</b>	690.1
Net interest paid	<b>(309.4)</b>	(279.4)
Taxation – group relief (paid)/received	<b>(22.7)</b>	1.0
Cash flow after interest and tax	<b>467.8</b>	411.7
Net capital expenditure	<b>(659.9)</b>	(609.6)
Disposal of subsidiary	<b>(5.6)</b>	(124.0)
Equity dividends paid	<b>(24.8)</b>	-
Net cash outflow before management of liquid resources and financing	<b>(222.5)</b>	(321.9)
Management of liquid resources	<b>(23.8)</b>	185.0
Prepayment of derivative interest	-	(36.7)
Cancellation of derivatives	<b>(53.1)</b>	(73.9)
Proceeds of equity issue	-	217.4
Movement in borrowings and other financing flows	<b>295.8</b>	34.0
(Decrease)/increase in net cash	<b>(3.6)</b>	3.9

### 2.3.2 Cash flow from operating activities

Net cash inflow from operations in the nine months ended 30 September 2011 increased 15.9% to £799.9 million (2010: £690.1 million) which compares with Adjusted EBITDA of £842.2 million (2010: £719.0 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.

### 2.3.3 Capital expenditure

In the nine months ended 30 September 2011, the Group invested £659.9 million in capital expenditure (2010: £609.6 million) with £645.1 million at Heathrow (2010: £589.7 million) and £14.8 million at Stansted (2010: £19.9 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.

## 2.4 Pension scheme

At 30 September 2011, the BAA group's defined benefit pension scheme had a surplus of £107.0 million as measured under IAS 19. Under the BAA group's Shared Services Agreement pension scheme surpluses are not attributable to the Group.

## 2.5 Recent financing activity

During 2011, the Group has 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 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.

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

Also during September 2011 Markit agreed that bonds issued by BAA Funding Limited should be reclassified from the iBoxx collateralized indices to the corporate indices with effect from 31 December 2011. Over time, the Group expects this may broaden the range of investors able to participate in its bond issues as well as providing scope for improved secondary market liquidity.

## 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 nine months of 2011, the Group's nominal net debt increased 4.3% to £10,351.0 million at 30 September 2011 from £9,921.2 million at 31 December 2010.

The Group's nominal net debt at 30 September 2011 comprised £7,802.7 million outstanding under bond issues, £1,400.0 million outstanding under the Group's capital expenditure facility, £929.5 million outstanding under other bank facilities, £286.1 million in index-linked derivative accretion and cash and current asset investments of £67.3 million. Nominal net debt comprised £9,326.0 million in senior net debt and £1,025.0 million in junior debt.

The accounting value of the Group's net debt at 30 September 2011 was £10,286.7 million (31 December 2010: £9,910.5 million).

The average cost of the Group's external gross debt at 30 September 2011 was 4.23% (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 September 2011, the Group had approximately £1.4 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 early 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 £0.5 million of cash held at BAA (SH), BAA (SH)'s consolidated net debt at 30 September 2011 was £10,850.5 million, an increase of 4.3% 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 September 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 September 2011	12,274.6	1,358.8	13,633.4

The increase in the total RAB during the nine months ended 30 September 2011 reflected the addition of approximately £675 million in capital expenditure partially offset by regulatory depreciation of around £410 million. Variation in RAB profiling adjustments added a further £60 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £535 million over the period.

#### 2.6.4 Net interest payable and net interest paid

In the nine months ended 30 September 2011, the Group's net interest payable was £585.4 million (2010: £519.4 million) excluding fair value losses on financial instruments. Underlying net interest payable was £566.6 million (2010: £482.8 million), excluding £21.5 million (2010: £16.2 million) in capitalised interest and £40.3 million (2010: £52.8 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 £72.9 million (2010: £12.1 million) that reflects principally the impact on the mark-to-market value of index-linked swaps of a significant decrease between 31 December 2010 and 30 September 2011 in implied future interest rates and the larger portfolio of index-linked swaps in place in 2011. The RPI curve reduced marginally over the same period, though actual RPI fixings have increased significantly in 2011.

Net interest paid in the nine months ended 30 September 2011 was £309.4 million (2010: £279.4 million). This consisted of £268.3 million (2010: £211.8 million) paid in relation to external debt and £41.1 million (2010: £67.6 million) paid under the debenture between BAA (SP) and BAA (SH). The increase in external interest paid is primarily due to the cash impact of the on-going replacement of floating rate bank debt with higher yielding longer term bank and bond finance, for example the £25 million first interest coupon paid in September 2011 on the Class B bond issued in September 2010. The impact of new swaps, swap cancellations, and swaps coming out of their prepayment periods also resulted in higher net payments in 2011. The lower interest paid in 2011 on the debenture between BAA (SP) and BAA (SH) is due to the decrease in the amount of the debenture following the partial re-payment of £1 billion in September 2010, financed by new and existing facilities in BAA (SP).

Net interest paid is lower than underlying net interest payable primarily due to an amortisation charge of £48.0 million (2010: £105.6 million) relating to prepayments of derivative interest and a £179.3 million non-cash charge (2010: £77.3 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 September 2011, the Group's senior and junior gearing ratios (nominal net debt to RAB) were 68.4% and 75.9% 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 79.6% (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 and the impact on the RAB of inflation referred to in section 2.6.3. As disclosed in the Group's results for the six months ended 30 June 2011, the cash injection of £134.8 million into the Group made in early 2011 by way of intra-BAA group loan was reversed in September 2011 and distributed out of the Group and beyond BAA (SH) plc to repay part of the accrued interest under the toggle loan facility held at ADI Finance 1 Limited, a holding company of the BAA group.

#### 2.7 Outlook

The Group's trading performance has been consistent with expectations during the first nine months of 2011 and passenger traffic has remained broadly as expected since then. Taken together with the current outlook for the remainder of the year, the Group expects Adjusted EBITDA for 2011 to be consistent with the guidance of £1,124 million included in the investor report issued in June 2011. Prospects for continued strong growth in Adjusted EBITDA in 2012 are supported by the tariff increases taking effect from 1 April 2012. The Group will provide more detailed guidance on expected performance for next year in its investor report due to be published in December 2011.

## Appendix 1 – Financial information

### BAA (SP) Limited

#### Consolidated profit and loss account for the nine months ended 30 September 2011

	Note	Unaudited Nine months ended 30 September 2011 £m	Unaudited Nine months ended 30 September 2010 £m	Audited Year ended 31 December 2010 £m
<b>Turnover – continuing operations</b>	1	<b>1,703.3</b>	1,545.5	2,074.3
Operating costs – ordinary		(1,217.9)	(1,183.0)	(1,584.1)
Operating gain – exceptional: pensions	2	36.6	96.6	89.9
Operating costs – exceptional: other	2	(11.0)	(30.4)	(31.4)
Total operating costs		(1,192.3)	(1,116.8)	(1,525.6)
<b>Operating profit – continuing operations</b>	1	<b>511.0</b>	428.7	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	161.0	116.4	162.2
Interest payable and similar charges	3	(746.4)	(635.8)	(858.6)
Fair value loss on financial instruments	3	(72.9)	(12.1)	(35.8)
Net interest payable and similar charges		(658.3)	(531.5)	(732.2)
<b>Loss on ordinary activities before taxation</b>		<b>(147.3)</b>	(192.6)	(316.6)
Tax credit/(charge) on loss on ordinary activities	4	51.7	34.3	(5.2)
<b>Loss on ordinary activities after taxation</b>		<b>(95.6)</b>	(158.3)	(321.8)

## BAA (SP) Limited

### Consolidated balance sheet as at 30 September 2011

	Note	Unaudited 30 September 2011 £m	Unaudited 30 September 2010 £m	Audited 31 December 2010 £m
<b>Fixed assets</b>				
Tangible fixed assets		12,034.9	11,588.2	11,678.2
Financial assets – derivative financial instruments		394.2	583.5	551.7
<b>Total fixed assets</b>		<b>12,429.1</b>	<b>12,171.7</b>	<b>12,229.9</b>
<b>Current assets</b>				
Stocks		6.9	5.2	5.5
Debtors		394.4	364.7	357.7
Financial assets – derivative financial instruments		195.0	0.1	0.1
Current asset investments		64.8	49.5	41.0
Cash at bank and in hand		2.5	7.9	6.1
<b>Total current assets</b>		<b>663.6</b>	<b>427.4</b>	<b>410.4</b>
<b>Current liabilities</b>				
Creditors: amounts falling due within one year	5	(1,474.3)	(1,121.8)	(586.2)
<b>Net current liabilities</b>		<b>(810.7)</b>	<b>(694.4)</b>	<b>(175.8)</b>
<b>Total assets less current liabilities</b>		<b>11,618.4</b>	<b>11,477.3</b>	<b>12,054.1</b>
Creditors: amounts falling due after more than one year	5	(11,032.2)	(10,421.9)	(11,060.1)
Deferred tax		(173.6)	(261.7)	(271.1)
Provisions for liabilities and charges – pensions		(16.7)	(46.5)	(53.3)
Provisions for liabilities and charges – other		(20.8)	(44.4)	(33.7)
<b>Net assets</b>		<b>375.1</b>	<b>702.8</b>	<b>635.9</b>
<b>Capital and reserves</b>				
Called up share capital		11.0	11.0	11.0
Share premium reserve		499.0	499.0	499.0
Revaluation reserve		1,499.1	1,457.7	1,470.9
Merger reserve		(4,535.6)	(4,535.6)	(4,535.6)
Fair value reserve		(343.4)	(257.2)	(174.7)
Profit and loss reserve		3,245.0	3,527.9	3,365.3
<b>Total shareholder's funds</b>		<b>375.1</b>	<b>702.8</b>	<b>635.9</b>

## BAA (SP) Limited

### Consolidated summary cash flow statement for the nine months ended 30 September 2011

	Note	Unaudited Nine months ended 30 September 2011 £m	Restated <sup>1</sup> Unaudited Nine months ended 30 September 2010 £m	Audited Year ended 31 December 2010 £m
Operating profit – continuing operations		511.0	428.7	548.7
<i>Adjustments for:</i>				
Depreciation (including exceptional depreciation and impairment)		367.8	375.2	495.4
(Gain)/loss on disposal of tangible fixed assets		(0.3)	0.3	0.3
<i>Working capital changes:</i>				
(Increase)/decrease in stock and debtors		(11.3)	6.2	(4.5)
Increase in creditors		3.7	9.6	18.0
Decrease in provisions		(7.3)	(9.2)	(17.0)
Difference between pension charge and cash contributions		(27.1)	(24.1)	(32.5)
Exceptional pension credit		(36.6)	(96.6)	(89.9)
<b>Net cash inflow from operating activities – continuing</b>		<b>799.9</b>	<b>690.1</b>	<b>918.5</b>
Net interest paid		(309.4)	(279.4)	(393.8)
Taxation – group relief (paid)/received		(22.7)	1.0	(17.1)
Net capital expenditure		(659.9)	(609.6)	(841.1)
Disposal of subsidiary – proceeds	2	-	-	1.4
Disposal of subsidiary – pension and disposal costs		(5.6)	(124.0)	(126.7)
Equity dividends paid		(24.8)	-	-
<b>Net cash outflow before use of liquid resources and financing</b>		<b>(222.5)</b>	<b>(321.9)</b>	<b>(458.8)</b>
Management of liquid resources		(23.8)	185.0	193.5
Issuance of bonds	5	1,507.9	397.1	830.1
Drawdown of Class B facility	5	-	625.0	625.0
Drawdown of capital expenditure facility	5	100.0	445.0	600.0
Repayment of other facilities and other items	5	(1,328.9)	(576.1)	(1,037.5)
Drawdown/(repayment) of amount owed to BAA (SH) plc	5	31.8	(1,000.0)	(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
<b>Net cash inflow from financing</b>		<b>242.7</b>	<b>140.8</b>	<b>267.4</b>
<b>(Decrease)/increase in cash</b>		<b>(3.6)</b>	<b>3.9</b>	<b>2.1</b>

<sup>1</sup> The presentation of certain balances for the nine months ended 30 September 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 nine months ended 30 September 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 Nine months ended 30 September 2011	Unaudited Nine months ended 30 September 2010	Audited Year ended 31 December 2010
	£m	£m	£m
Heathrow	1,522.1	1,368.6	1,844.7
Stansted	181.2	176.9	229.6
<b>Total</b>	<b>1,703.3</b>	<b>1,545.5</b>	<b>2,074.3</b>

Operating profit	Unaudited Nine months ended 30 September 2011	Unaudited Nine months ended 30 September 2010	Audited Year ended 31 December 2010
	£m	£m	£m
Heathrow	458.1	367.9	482.0
Stansted	48.3	56.6	61.0
Other entities <sup>1</sup>	4.6	4.2	5.7
<b>Total</b>	<b>511.0</b>	<b>428.7</b>	<b>548.7</b>

Net assets/(liabilities)	Unaudited 30 September 2011	Unaudited 30 September 2010	Audited 31 December 2010
	£m	£m	£m
Heathrow	1,565.9	1,689.5	1,676.4
Stansted	919.1	949.5	933.5
Other entities <sup>1</sup>	(2,109.9)	(1,936.0)	(1,974.0)
Other adjustments <sup>2</sup>	-	(0.2)	-
<b>Total</b>	<b>375.1</b>	<b>702.8</b>	<b>635.9</b>

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

<sup>2</sup> '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 Nine months ended 30 September 2011	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation <sup>1</sup> £m	Operating profit £m
Heathrow	765.0	19.5	(326.4)	458.1
Stansted	72.7	6.0	(30.4)	48.3
Other entities and adjustments <sup>2</sup>	4.5	0.1	-	4.6
<b>Total</b>	<b>842.2</b>	<b>25.6</b>	<b>(356.8)</b>	<b>511.0</b>

Unaudited Nine months ended 30 September 2010	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation <sup>1</sup> £m	Operating profit £m
Heathrow	644.5	50.1	(326.7)	367.9
Stansted	70.4	16.0	(29.8)	56.6
Other entities and adjustments <sup>2</sup>	4.1	0.1	-	4.2
<b>Total</b>	<b>719.0</b>	<b>66.2</b>	<b>(356.5)</b>	<b>428.7</b>

Audited Year ended 31 December 2010	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation <sup>1</sup> £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 <sup>2</sup>	5.6	0.1	-	5.7
<b>Total</b>	<b>966.9</b>	<b>58.5</b>	<b>(476.7)</b>	<b>548.7</b>

<sup>1</sup> Depreciation excluding exceptional accelerated depreciation and impairment.

<sup>2</sup> 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.



## Notes to the consolidated financial information for the nine months ended 30 September 2011

### 2 Operating and non-operating exceptional items

	Unaudited Nine months ended 30 September 2011 £m	Unaudited Nine months ended 30 September 2010 £m	Restated <sup>1</sup> Audited Year ended 31 December 2010 £m
<b>Operating costs – exceptional: pension</b>			
Pension credit	36.6	96.6	89.9
<b>Operating costs – exceptional: other</b>			
Accelerated depreciation and impairment	(11.0)	(18.7)	(18.7)
Reorganisation costs	-	(11.7)	(12.7)
<b>Total operating exceptional items</b>	<b>25.6</b>	<b>66.2</b>	<b>58.5</b>
Exceptional impairment of tangible fixed assets	-	(104.4)	(149.3)
Gain on disposal of Gatwick airport – discontinued operations	-	14.6	16.2
<b>Total non-operating exceptional items</b>	<b>-</b>	<b>(89.8)</b>	<b>(133.1)</b>
Taxation on exceptional items	(9.2)	(17.9)	(15.8)
<b>Total exceptional items</b>	<b>16.4</b>	<b>(41.5)</b>	<b>(90.4)</b>

<sup>1</sup> 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 nine months ended 30 September 2011 an exceptional pension credit of £36.6 million (nine months ended 30 September 2010: £96.6 million; year ended 31 December 2010: £90.9 million) was recognised 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 nine months ended 30 September 2011

#### 3 Net interest payable and similar charges

	Unaudited Nine months ended 30 September 2011 £m	Unaudited Nine months ended 30 September 2010 £m	Audited Year ended 31 December 2010 £m
<b>Interest receivable</b>			
Interest receivable on derivatives not in hedge relationship	160.8	115.6	160.3
Interest receivable from other group undertakings	-	-	1.1
Interest on bank deposits	0.2	0.8	0.8
	<b>161.0</b>	<b>116.4</b>	<b>162.2</b>
<b>Interest payable and similar charges</b>			
Interest on borrowings:			
Bonds and related hedging instruments <sup>1</sup>	(337.2)	(284.9)	(387.2)
Bank loans and overdrafts and related hedging instruments	(121.5)	(147.9)	(193.5)
Interest payable on derivatives not in hedge relationship <sup>2</sup>	(255.0)	(146.0)	(214.1)
Facility fees	(17.7)	(20.0)	(26.8)
Interest on debenture payable to BAA (SH) plc	(36.5)	(53.2)	(59.7)
	<b>(767.9)</b>	<b>(652.0)</b>	<b>(881.3)</b>
Less capitalised interest <sup>3</sup>	21.5	16.2	22.7
	<b>(746.4)</b>	<b>(635.8)</b>	<b>(858.6)</b>
<b>Net interest payable before fair value loss</b>	<b>(585.4)</b>	<b>(519.4)</b>	<b>(696.4)</b>
<b>Fair value loss on financial instruments</b>			
Interest rate swaps: cash flow hedge <sup>4</sup>	2.6	(7.6)	(6.3)
Index-linked swaps: not in hedge relationship <sup>5</sup>	(91.5)	(12.3)	(35.5)
Cross-currency swaps: cash flow hedge <sup>4</sup>	10.5	9.1	6.0
Cross-currency swaps: fair value hedge <sup>4</sup>	8.7	(0.7)	0.7
Fair value re-measurements of foreign exchange contracts and currency balances	(3.2)	(0.6)	(0.7)
	<b>(72.9)</b>	<b>(12.1)</b>	<b>(35.8)</b>
<b>Net interest payable and similar charges</b>	<b>(658.3)</b>	<b>(531.5)</b>	<b>(732.2)</b>

<sup>1</sup> Includes accretion of £10.6 million (nine months ended 30 September 2010: £10.3 million; year ended 31 December 2010: £11.8 million) on index-linked bonds.

<sup>2</sup> Includes accretion of £168.7 million (nine months ended 30 September 2010: £67.0 million; year ended 31 December 2010: £106.8 million) on index-linked swaps.

<sup>3</sup> 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 2.21% (nine months ended 30 September 2010: 2.26%; year ended 31 December 2010: 2.22%) to expenditure incurred on such assets.

<sup>4</sup> Hedge ineffectiveness on derivatives in hedge relationship.

<sup>5</sup> 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 nine months ended 30 September 2011 results in an effective tax rate for the period of 35.1% (30 September 2010: 17.8%). This reflects a tax credit arising on ordinary activities of £27.7 million (30 September 2010: £22.1 million) and a tax credit of £24.0 million (30 September 2010: £12.2 million) due to the further reduction in the rate of corporation tax from 1 April 2011 and 1 April 2012.

The tax credit for the nine months ended 30 September 2011 on ordinary activities results in an effective tax rate of 18.8% (30 September 2010: 11.5%). This credit is calculated by applying the forecast estimated average annual effective tax rate for each entity to the results for the nine months ended 30 September 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 for further reductions in the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. Both the reductions in the corporation tax rate have been substantively enacted at the reporting date and as a result the Group's deferred tax balances, which were previously provided at 27%, were 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.

## Notes to the consolidated financial information for the nine months ended 30 September 2011

### 5 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £890.0 million and £0.1 million respectively (30 September 2010: £604.9 million and £0.2 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 £10,061.6 million and £969.3 million respectively (30 September 2010: £9,831.7 million and £586.9 million respectively; 31 December 2010: £10,484.3 million and £573.1 million respectively).

	Unaudited 30 September 2011 £m	Unaudited 30 September 2010 £m	Audited 31 December 2010 £m
<b>Current borrowings</b>			
<b>Secured</b>			
Bank loans	39.1	39.1	39.1
Bonds:			
3.975% €1,000 million due 2012	850.9	-	-
<b>Unsecured</b>			
Debenture payable to BAA (SH) plc	-	565.8	-
<b>Total current borrowings</b>	<b>890.0</b>	<b>604.9</b>	<b>39.1</b>
<b>Non-current borrowings</b>			
<b>Secured</b>			
Syndicated term facility	-	1,740.2	1,292.2
Capital expenditure facility	1,400.0	1,145.0	1,300.0
Other bank loans	880.0	918.9	907.2
	<b>2,280.0</b>	<b>3,804.1</b>	<b>3,499.4</b>
<b>Secured</b>			
Bonds:			
3.975% €1,000 million due 2012	-	835.6	832.3
5.850% £400 million due 2013	378.3	372.5	373.9
4.600% €750 million due 2014	596.4	609.8	593.9
12.450% £300 million due 2016	359.1	369.8	367.2
4.125% €500 million due 2016	420.2	-	413.6
4.600% €750 million due 2018	575.6	572.0	567.6
6.250% £400 million due 2018	397.0	397.1	396.8
9.200% £250 million due 2021	281.1	283.3	282.8
4.875% US\$1,000 million due 2021	676.7	-	-
5.225% £750 million due 2023	623.1	616.3	618.0
6.750% £700 million due 2026	689.7	689.4	689.4
7.075% £200 million due 2028	197.5	197.4	197.4
6.450% £900 million due 2031	840.5	839.2	839.5
3.334%+RPI £365 million due 2039 <sup>1</sup>	411.5	245.2	246.7
5.875% £750 million due 2041	737.3	-	-
	<b>7,184.0</b>	<b>6,027.6</b>	<b>6,419.1</b>
<b>Unsecured</b>			
Debenture payable to BAA (SH) plc	597.6	-	565.8
<b>Total non-current borrowings</b>	<b>10,061.6</b>	<b>9,831.7</b>	<b>10,484.3</b>
<b>Total borrowings</b>	<b>10,951.6</b>	<b>10,436.6</b>	<b>10,523.4</b>

<sup>1</sup> 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 nine months ended 30 September 2011

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
<b>Turnover</b>					
Aeronautical income	858.8	-	<b>858.8</b>	97.9	<b>956.7</b>
Retail income	319.9	-	<b>319.9</b>	65.1	<b>385.0</b>
Car parking	58.9	-	58.9	27.9	86.8
Duty and tax-free	82.2	-	82.2	8.9	91.1
Airside specialist shops	61.7	-	61.7	5.1	66.8
Bureaux de change	29.0	-	29.0	6.5	35.5
Catering	26.5	-	26.5	7.4	33.9
Landside shops and bookshops	15.7	-	15.7	3.6	19.3
Advertising	20.7	-	20.7	1.8	22.5
Car rental	10.2	-	10.2	1.8	12.0
Other	15.0	-	15.0	2.1	17.1
Operational facilities and utilities income	109.0	-	<b>109.0</b>	7.3	<b>116.3</b>
Property rental income	76.3	-	<b>76.3</b>	6.1	<b>82.4</b>
Rail income	81.5	-	<b>81.5</b>	-	<b>81.5</b>
Other income	72.1	-	<b>72.1</b>	4.8	<b>76.9</b>
HEX inter-company elimination	(43.5)	48.0	<b>4.5</b>	-	<b>4.5</b>
<b>Total income</b>	<b>1,474.1</b>	<b>48.0</b>	<b>1,522.1</b>	<b>181.2</b>	<b>1,703.3</b>
<b>Operating costs</b>					
Employment costs	192.7	15.9	<b>208.6</b>	40.2	<b>248.8</b>
Maintenance expenditure	80.2	12.4	<b>92.6</b>	7.3	<b>99.9</b>
Utility costs	68.6	1.6	<b>70.2</b>	14.7	<b>84.9</b>
Rents and rates	87.0	1.0	<b>88.0</b>	11.2	<b>99.2</b>
General expenses	143.9	10.9	<b>154.8</b>	21.4	<b>176.2</b>
Retail expenditure	16.8	-	<b>16.8</b>	6.3	<b>23.1</b>
Intra-group charges/other	168.1	1.7	<b>169.8</b>	7.5	<b>177.3</b>
Gain on disposal of fixed assets	(0.2)	-	<b>(0.2)</b>	(0.1)	<b>(0.3)</b>
HEX inter-company elimination	(48.0)	-	<b>(48.0)</b>	-	<b>(48.0)</b>
<b>Adjusted operating costs</b>	<b>709.1</b>	<b>43.5</b>	<b>752.6</b>	<b>108.5</b>	<b>861.1</b>
Depreciation	326.4	-	<b>326.4</b>	30.4	<b>356.8</b>
Exceptional items	(19.5)	(0.1)	<b>(19.6)</b>	(6.0)	<b>(25.6)</b>
<b>Total operating costs</b>	<b>1,016.0</b>	<b>43.4</b>	<b>1,059.4</b>	<b>132.9</b>	<b>1,192.3</b>
<b>Adjusted EBITDA</b>	<b>765.0</b>	<b>4.5</b>	<b>769.5</b>	<b>72.7</b>	<b>842.2</b>

## Analysis of turnover and operating costs for the nine months ended 30 September 2010

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
<b>Turnover</b>					
Aeronautical income	742.1	-	<b>742.1</b>	95.4	<b>837.5</b>
Retail income	285.4	-	<b>285.4</b>	64.7	<b>350.1</b>
Car parking	51.6	-	51.6	26.9	78.5
Duty and tax-free	70.9	-	70.9	9.4	80.3
Airsides specialist shops	54.4	-	54.4	5.2	59.6
Bureaux de change	26.7	-	26.7	6.0	32.7
Catering	22.7	-	22.7	7.4	30.1
Landside shops and bookshops	15.0	-	15.0	3.7	18.7
Advertising	21.3	-	21.3	1.7	23.0
Car rental	9.7	-	9.7	1.9	11.6
Other	13.1	-	13.1	2.5	15.6
Operational facilities and utilities income	111.5	-	<b>111.5</b>	7.7	<b>119.2</b>
Property rental income	75.0	-	<b>75.0</b>	6.1	<b>81.1</b>
Rail income	73.6	-	<b>73.6</b>	-	<b>73.6</b>
Other income	76.9	-	<b>76.9</b>	3.0	<b>79.9</b>
HEX inter-company elimination	(41.4)	45.5	<b>4.1</b>	-	<b>4.1</b>
<b>Total income</b>	<b>1,323.1</b>	<b>45.5</b>	<b>1,368.6</b>	<b>176.9</b>	<b>1,545.5</b>
<b>Operating costs</b>					
Employment costs	178.4	14.1	<b>192.5</b>	37.6	<b>230.1</b>
Maintenance expenditure	81.3	11.6	<b>92.9</b>	7.3	<b>100.2</b>
Utility costs	69.4	1.7	<b>71.1</b>	14.8	<b>85.9</b>
Rents and rates	77.0	1.8	<b>78.8</b>	9.5	<b>88.3</b>
General expenses	139.9	10.4	<b>150.3</b>	22.0	<b>172.3</b>
Retail expenditure	16.7	-	<b>16.7</b>	6.5	<b>23.2</b>
Intra-group charges/other	161.1	1.8	<b>162.9</b>	8.8	<b>171.7</b>
Loss on disposal of fixed assets	0.3	-	<b>0.3</b>	-	<b>0.3</b>
HEX inter-company elimination	(45.5)	-	<b>(45.5)</b>	-	<b>(45.5)</b>
<b>Adjusted operating costs</b>	<b>678.6</b>	<b>41.4</b>	<b>720.0</b>	<b>106.5</b>	<b>826.5</b>
Depreciation	326.7	-	<b>326.7</b>	29.8	<b>356.5</b>
Exceptional items	(50.1)	(0.1)	<b>(50.2)</b>	(16.0)	<b>(66.2)</b>
<b>Total operating costs</b>	<b>955.2</b>	<b>41.3</b>	<b>996.5</b>	<b>120.3</b>	<b>1,116.8</b>
<b>Adjusted EBITDA</b>	<b>644.5</b>	<b>4.1</b>	<b>648.6</b>	<b>70.4</b>	<b>719.0</b>