BAA Airports Limited

Annual report and financial statements for the year ended 31 December 2010

Company registration number 01970855

BAA Airports Limited

Contents

BAA Airports Limited

Officers and professional advisers

Directors
Nicholas Cullen
John Holland-Kaye
Jose Leo
Steven Morgan

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The Compass Centre
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Independent auditors
Deloitte LLP
Chartered Accountants and Statutory Auditors
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BAA Airports Limited

Directors' report

The Directors present their annual report and the audited financial statements for BAA Airports Limited (the 'Company') for the year ended 31 December 2010 BAA Airports Limited is an indirect subsidiary of BAA Limited which is the parent undertaking of the smallest group to consolidate these financial statements (the 'BAA Group')

Principal activities
The principal activity of the Company is to act as the main service provider for the six airports (the 'Airports') owned and operated by the BAA Group The Company employs all staff involved in running the operational activities of the Airports and also provides corporate and centralised services to the Airports through Shared Services Agreements ('SSA') In addition, the Company is an indirect holding company of BAA (SP) Limited, which is the parent company within a ring-fenced group that owns Heathrow and Stansted airports (the 'Designated airports') and operates the Heathrow Express rail link between Heathrow and Paddington, London

No significant changes to the activities of the Company are expected in the foreseeable future

Results and dividends
The profit after taxation for the financial year amounted to £311 1 million (2009 £596 3 million) No dividends were paid during the year (2009 £nil)

The statutory results for the year are set out on page 10

Review of business and future developments
Key events occurring during the year and developments since the beginning of 2011 are detailed below

The BAA (SP) Limited Group's capital structure was enhanced by the completion in January 2010 of the final £217 4 million tranche of a £500 million equity injection announced in November 2009

As a result of the equity injection, on 28 January 2010, the Company issued 210,000,000 ordinary shares of £1 each to BAA Airports Holdco Limited On the same day the Company utilised the proceeds together with existing cash of the Company to subscribe to an additional 217,370,315 ordinary shares of £1 each issued by its subsidiary BAA (DSH) Limited

On 10 September 2010, the Company injected a further £100,000,000 to its subsidiary BAA (DSH) Limited, subscribing to an additional 100,000,000 ordinary shares of £1 each

Key performance indicators
Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of development, performance or position of the Company's operations

Regulatory developments
Competition Commission inquiry into the supply of UK airport services by the BAA Group
The BAA Group's provision of UK airport services has been the subject of a Competition Commission ('CC') investigation In March 2009, the CC published its final decision which included the key structural remedy that the BAA Group must divest both Gatwick airport and Stansted (and either Edinburgh or Glasgow airport) Gatwick airport has since been sold

The CC's decision was initially overturned by the Competition Appeals Tribunal but was upheld by the Court of Appeal in October 2010 and, in February 2011, the BAA Group was refused permission to appeal to the Supreme Court

In March 2011 the CC provisionally concluded there had been no material change in circumstances that would lead it to amend its requirement that the BAA Group sell first Stansted and then one of the Scottish airports within the original commercially confidential timescale The BAA Group continues to believe that there have been material changes in circumstances which make the requirement to sell Stansted airport inappropriate It has submitted comments to the CC accordingly The CC is expected to publish its final decision in June 2011

Airport economic regulation review and potential extension of Heathrow's current regulatory period
In March 2011, the Government confirmed its intention to implement reforms to the framework for the economic regulation of UK airports, as set out in its July 2010 statement, which largely build on proposals published by the Department of Transport in December 2009 The proposals are expected to be enacted into law in the proposed new Airport Economic Regulation bill (the 'Bill') in the 2012 parliamentary session

Reflecting a desire that the terms of Heathrow's next regulatory settlement are negotiated using the new regulatory framework, following consultation with Heathrow and its airline community, in March 2011 the Civil Aviation Authority ('CAA') announced the extension of Heathrow's current regulatory period by one year from 31 March 2013 to 31 March 2014 During the one year extension, Heathrow's aeronautical tariffs will continue to be determined using the existing RPI + 7 5% formula In addition, Heathrow has agreed with its airline community a cap on its capital programme for the extension year of £735 million (in 2007/08 prices)

BAA Airports Limited

Directors' report *continued*

Review of business and future developments ***continued***
Regulatory developments continued
Government announcements on new runways and high speed rail
The UK's new coalition government announced that it will not support the development of new runways in the South East of England but confirmed its support for the proposed high speed rail link between London and Birmingham together with closer assessment of the merits of a direct connection to Heathrow airport

The BAA Group expects a direct high speed rail link to Heathrow airport would reduce journey times from the Midlands and north of England thereby increasing demand to use Heathrow airport by capturing UK passengers that currently travel via other European hubs Capacity should also be increased by allowing domestic slots serviced by relatively small aircraft to be rotated onto long haul routes serviced by larger aircraft

As a result of the government's position on runways, in May 2010 Heathrow and Stansted airports stopped pursuing planning applications for new runways The decision on runways is expected to reduce financing requirements over the next few years As a result of this decision, the BAA Group made impairment charges in respect of runway planning application costs and the value of properties and land purchased in relation to potential future runway development These impairments however did not affect the carrying value of the investment which the Company holds in BAA (DSH) Limited In addition, these accounting charges will not impact the airports' regulatory asset bases or the generation of future cash flows The Heathrow and Stansted airports' exposure to passenger volume risk is limited by the five year regulatory cycle In any event, future growth in passenger traffic is expected without new runways even at Heathrow airport due to higher load factors, capacity utilisation and increased use of larger aircraft providing growth opportunities

Developments since beginning of 2011
In February 2011, the Company and the operating entities of the BAA Group entered into contracts with Capgemini for the outsourcing of a range of IT services previously provided by the Company's own IT department These services, which include application management, support of end user devices, IT infrastructure management and telecoms support, will be provided under an initial five year contract The arrangement will involve a transition programme during 2011 which will include the transfer (to Capgemini) or retention of employees within the Company's IT department and result in one off incremental operating costs during 2011

Directors
The Directors who served are as follows

Michael Brown	Resigned 9 March 2010
Nicholas Cullen	Appointed 9 March 2010
John Holland-Kaye	
Jose Leo	
Steven Morgan	

Company secretary
Pursuant to section 270 of Companies Act 2006 a private company registered within England or Wales is not required to have a Company Secretary The Company availed itself of this exemption and consequently on 1 September 2010 Carol Hui resigned

Employment policies
The Company's employment policies are regularly reviewed and updated to ensure they remain effective The Company's overall aim is to create and sustain a high performing organisation by building on the commitment of its people

The Company has defined a set of guiding principles to ensure fair recruitment and selection The Company continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles

The Company is committed to giving full and fair consideration to applicants for employment Every applicant or employee will be treated equally whatever their race, colour, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background The Company actively encourages a diverse range of applicants and commits to fair treatment of all applicants The Company's investment in learning and development is guided by senior line managers who ensure that the Company provides the learning opportunities to support the competencies that are seen as key to the Company's success

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities The Company has further procedures to ensure that disabled colleagues are fairly treated and that their training and career development needs are carefully managed Where employees have become disabled during the course of employment, the Company endeavours to ensure continuing employment through the arrangement of appropriate training

Employment policies *continued*
Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, roadshows and an intranet The Company also operates frameworks for consultation and is committed to managing people through change fairly

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business Bonuses paid to employees reflect the financial performance of the business In addition, senior management participate in a long-term incentive plan which also rewards based on BAA Group performance

Supplier payment policies
The Company complies with the UK government's better payment practice code which states that responsible companies should

- agree payment terms at the outset of a transaction and adhere to them,
- provide suppliers with clear guidance on payment procedures,
- pay bills in accordance with any contract agreed or as required by law, and
- advise suppliers without delay when invoices are contested and settle disputes quickly

The Company had 15 days purchases outstanding at 31 December 2010 (2009 14 days) based on the average daily amount invoiced by suppliers during the year

Risk management
Risk management is a key element of the BAA Group's corporate operations of which the Company forms part Risk is centrally managed for the BAA Group The Executive Committee and Board referred to in the notes below relates to the Executive Committee and Board of BAA Limited

Risk management in the BAA Group facilitates the identification, evaluation and effective management of the threats to the achievement of the BAA Group's purpose, vision, objectives, goals and strategies The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed Particular emphasis is given to safety, security, environment, reputation and finance in pursuit of the BAA Group's strategic framework

A key element of the risk management process is the method of profiling risk This determines the threats to the achievement of business objectives and day to day operations in terms of likelihood and consequence at a residual level, after taking account of mitigating and controlling actions Details are maintained in risk registers which are used as the basis for regular review of risk management at the Executive Committee level The risk registers are also used to make informed decisions relating to the procurement of insurance cover

The risk management process is also aimed at defining and implementing clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations

The operation of the process and the individual registers are subject to periodic review by the BAA Group's Business Assurance function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively

The principal corporate and reputational risks as identified by the Executive Committee are

Safety risks
Health and safety is a core value of the business and the BAA Group operates a safety management system built around risk assessment, inspection, asset stewardship, governance and assurance

Risk assessment is undertaken for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by the BAA Group's business The BAA Group also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe Governance, led by the Airports' Senior Management Teams, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement

Risk management *continued*

Security risks
Security risks are regarded as important risks to manage throughout the BAA Group The BAA Group mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology The BAA Group works closely with government agencies, including the police and the UK Border Agency, to match security measures to a level commensurate with the current raised threat environment

Assurance is provided through management reporting processes and a specialist compliance audit function, reporting directly to the Health, Safety, Security and Environment Committee

Regulatory environment, legal and other reputational risks
Civil Aviation Authority ('CAA') economic regulation
The BAA Group's operations at Heathrow and Stansted airports are currently subject to regulatory review by the CAA and CC normally every five years The risk of an adverse outcome from these reviews is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters

Part of the regulatory framework is the BAA Group's involvement in constructive engagement with its airline customers In order to manage the risk of adverse airline relations, all airlines are invited to participate throughout the constructive engagement process and to be represented on engagement fora – eg joint steering groups When feedback is sought or processes measured, robust processes have been put in place to ensure confidentiality and neutrality of interpretation In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their on-going requirements are articulated and understood

Competition rules
The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the BAA Group, given its position in certain markets Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of the BAA Group breaching these regulations Refer to the Review of business and future developments section for details on the Competition Commission inquiry into the supply of UK airport services by BAA and the Airport economic regulation review and potential extension of Heathrow's current regulatory period

Capacity shortfall
Failure to secure necessary planning permissions could lead to the BAA Group having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service The UK government's policy on airport capacity changes has a significant influence on the BAA Group's ability to secure necessary planning permissions and develop capacity The BAA Group mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in government consultations and other advisory groups In addition, investment in additional capacity at Heathrow and Stansted airports will be partly dependent on an appropriate level of investment incentives being provided in future regulatory settlements

Existing planning approvals provide for passenger traffic to grow to approximately 90 million and 35 million at Heathrow and Stansted airports respectively

Environmental risks
Environmental risk is managed throughout the BAA Group as it has the potential to impact negatively upon the BAA Group's reputation and jeopardise its licence to operate and to grow The BAA Group controls and mitigates these risks at a number of levels Proactive environmental management systems and employee training programmes are embedded within operations through clear environmental strategies and resource conservation initiatives Progressive influencing of third parties, stakeholder engagement and community relations programmes are also established The BAA Group works closely with a range of stakeholders to ensure that the BAA Group reacts effectively to the challenges posed by the environmental agenda

Commercial and financial risk management objectives and policies
Operational disruption
There are a number of circumstances that can pose short term risks to the normal operations of Heathrow and Stansted airports such as shocks to the macroeconomic environment, terrorism, wars, airline bankruptcies, human health scares, weather conditions and natural disasters whose cause may be remote from the location of the Heathrow and Stansted airports These conditions can have a particularly significant impact on an airport such as Heathrow where, due to operating close to full capacity, there is negligible spare capacity to utilise in recovering from some of the above conditions Where possible the BAA Group seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible

Risk management *continued*

Commercial and financial risk management objectives and policies continued

Capital projects

The BAA Group recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation The BAA Group mitigates this risk through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction The process is continually improved incorporating lessons learnt and "best practice" distilled from knowledge sharing with other client programmes, expertise within its supply chain and guidance from professional bodies

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the BAA Group Since it is not possible to identify the timing or period of such an effect, the BAA Group carries out evaluations through a series of scenario planning exercises

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the BAA Group is recognised The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions The 2011 pay negotiations started in late January 2011 In March 2011, the BAA Group concluded negotiations with the Trade Unions for employees based at Heathrow regarding their pay through to the end of 2013 (separate negotiations will be undertaken for employees based at other airports) The BAA Group could also be exposed to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers and baggage handlers

Treasury

The Company's financial risk management objectives are aligned with its intermediate parent company, BAA Limited, which is the parent undertaking of the smallest group to consolidate these financial statements and the level at which financial risks for the Company are managed

The treasury policies of the BAA Group are set out below

The Board approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day-to-day treasury operations on a centralised basis

The treasury function is not permitted to speculate in financial instruments Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the BAA Group's business operations and funding To achieve this, the BAA Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange transactions to protect against interest rate and currency risks

The primary treasury related financial risks faced by the BAA Group are

(a) Interest rates

The BAA Group maintains a mix of fixed and floating rate debt As at 31 December 2010, fixed rate debt after hedging with derivatives represented 76% of the BAA Group's total external nominal debt

The BAA Group mitigates the risk of mismatch between aeronautical income and its designated airports' regulatory asset bases, which are directly linked to changes in the retail prices index, and nominal debt and interest payments by the issuance of inflation linked instruments

(b) Foreign currency

The BAA Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt The BAA Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed

(c) Funding and liquidity

The BAA Group has established both investment grade (at BAA (SP) Limited level) and sub-investment grade (at BAA (SH) plc level) financing platforms for its designated airports The BAA (SP) Limited platform supports bank term debt, bank revolving credit facilities including a revolving capital expenditure facility, bank liquidity facilities and sterling and foreign currency capital markets issuance All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Board and Executive Committee

The BAA (SH) plc platform is rated BB+/Ba3 and supports both bank and bond debt

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the BAA Group is not exposed to excessive refinancing risk in any one year

Directors' report *continued*

Risk management ***continued***
Commercial and financial risk management objectives and policies continued
Treasury continued

(c) Funding and liquidity *continued*

The Designated airports have positive cashflows before capital expenditure and maintain at least 12 months' headroom under the revolving capital expenditure facility As at 31 December 2010, cash at bank was £67 million, undrawn headroom under bank credit facilities was £1,450 million and undrawn headroom under the bank liquidity facilities was £524 million

(d) Counterparty credit

The BAA Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument

The BAA Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings lower than A-2/F1 The BAA Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with credit ratings below BBB+/A

Directors' indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office

Auditors

Pursuant to the provision of section 485(4) of the Companies Act 2006, an ordinary resolution was made by the Directors to appoint Deloitte LLP as Auditors of the Company for the year ended 31 December 2010

Statement of disclosure of information to the Auditors

Each of the persons who is a director at the date of approval of this Annual report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

On behalf of the Board

José Leo
Director

23 June 2011

Company registration number 01970855

BAA Airports Limited

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

On behalf of the Board

José Leo
Director

23 June 2011

Independent auditor's report to the members of BAA Airports Limited

We have audited the financial statements of BAA Airports Limited for the year ended 31 December 2010 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 23 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Andrew J Kelly

Andrew J Kelly (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

23 June 2011

BAA Airports Limited

Profit and loss account for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Turnover	1	**554 8**	609 1
Operatıng costs – ordınary	2	**(544 9)**	(588 7)
Operatıng (costs)/income – exceptıonal pensıons	3	**(105 0)**	258 0
Operatıng costs – exceptıonal other	3	**3 0**	(7 2)
Total operatıng costs		**(646 9)**	(337 9)
Operatıng (loss)/profit		**(92 1)**	271 2
Net ınterest receıvable and sımılar ıncome	4	**519 9**	511 1
Faır value (loss)/gaın on financıal ınstruments	4	**(5 4)**	42 4
Dıvıdends receıvable	5	**2 6**	1 0
Profit on ordınary actıvıtıes before taxatıon		**425 0**	825 7
Tax charge on profit on ordınary actıvıtıes	6	**(113 9)**	(229 4)
Profit on ordınary actıvıtıes after taxatıon	19	**311 1**	596 3

All profits and losses recognısed durıng the current and prıor year are from contınuıng operatıons

BAA Airports Limited

Statement of total recognised gains and losses for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Profit for the financial year	*19*	**311 1**	596 3
Deferred tax (debit)/credit on items transferred directly to equity[1]		**(23 2)**	112 1
Current tax charge on items transferred directly to equity		**-**	(0 6)
Other net recognised gains and (losses) relating to the year			
Actuarial gain/(loss) (gross of deferred tax)	*14*	**62 4**	(404 3)
Other movements		**-**	(2 1)
Fair value gains	*18*	**0 6**	12 6
		39 8	(282 3)
Total recognised gains relating to the year		**350 9**	314 0

[1] This includes a deferred tax debit of £23 3 million (2009 £114 3 million credit) relating to retirement benefit obligations

Reconciliation of movements in shareholder's funds for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Profit for the financial year	*19*	**311.1**	596 3
Deferred tax (debit)/credit on items transferred directly to equity[2]		**(23.2)**	112 1
Current tax charge on items transferred directly to equity		**-**	(0 6)
Other net recognised gains and (losses) relating to the year			
Actuarial gain/(loss) (gross of deferred tax)	*14*	**62 4**	(404 3)
Other movements		**3 2**	3 9
Fair value gains	*18*	**0 6**	12 6
Issue of ordinary share capital	*16*	**210 0**	255 0
Net movement in shareholder's funds		**564 1**	575 0
Opening shareholder's funds		**8,822 3**	8,247 3
Closing shareholder's funds		**9,386 4**	8,822 3

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures
[2] This includes a deferred tax debit of £23 3 million (2009 £114 3 million credit) relating to retirement benefit obligations

BAA Airports Limited

Balance sheet as at 31 December 2010

	Note	31 December 2010 £m	Restated[1] 31 December 2009 £m
Fixed assets			
Tangible assets	7	3 8	5 7
Investments	8	5,650 9	5,333 3
Total fixed assets		**5,654 7**	5,339 0
Current assets			
Debtors due within one year	9	487 6	624 9
due after more than one year	9	6,892 4	6,550 5
Current asset investments	10	193 9	40 3
Cash at bank and in hand	11	13 4	17 2
Total current assets		**7,587 3**	7,232 9
Current liabilities			
Creditors amounts falling due within one year	12	(934 3)	(644 9)
Net current assets		**6,653 0**	6,588 0
Total assets less current liabilities		**12,307 7**	11,927 0
Creditors amounts falling due after more than one year	13	(2,887 1)	(2,854 0)
Provisions for liabilities and charges	15	(8 7)	(65 0)
Net assets (excluding pension liability)		**9,411 9**	9,008 0
Net defined benefit pension liability	14	(25 5)	(185 7)
Net assets		**9,386 4**	8,822 3
Capital and reserves			
Called up share capital	16	1,567 4	1,357 4
Share premium reserve	17	325 3	325 3
Fair value reserve	18	43 1	48 4
Profit and loss reserve	19	7,450 6	7,091 2
Total shareholder's funds		**9,386 4**	8,822 3

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures

The financial statements of BAA Airports Limited (Company registration number 01970855) were approved by the Board of Directors and authorised for issue on 13 June 2011 They were signed on its behalf by

José Leo
Director

John Holland-Kaye
Director

Accounting policies for the year ended 31 December 2010

The principal accounting policies applied in the preparation of the financial statements of BAA Airports Limited (the 'Company') are set out below These policies have been applied consistently to all the years presented, unless otherwise stated

Basis of preparation
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and financial instruments, in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Going concern
The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company, as part of the BAA Limited Group (the 'BAA Group'), has adequate resources to continue in operational existence for the foreseeable future The Company forms part of the BAA Group which is the smallest group to consolidate these financial statements and the level at which the financial risks are managed for the Company

Consequently the Directors have reviewed the cash flow projections of the BAA Group, taking into account

- the forecast revenue and operating cash flows from the underlying operations,
- the forecast level of capital expenditure, and
- the overall BAA Group liquidity position, including the projected upstream of cash, remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets

As a result of the review and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date

Changes in accounting policy and disclosures
New and amended standards adopted by the Company
The Company has adopted the amendment to Financial Reporting Standard ('FRS') 20 'Share-based Payment' for Group cash-settled Share-based payment transactions, as detailed below in the Share-based payments accounting policy

Consolidated financial statements
The Company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of FGP Topco Limited and it and its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2010 The results are also included in the consolidated financial statements of BAA Limited for the year ended 31 December 2010 (intermediate parent entity and the smallest group to consolidate these financial statements) FGP Topco Limited is a company registered in England and Wales

The financial statements present information about the Company as an individual entity only and not as a group

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes This is mainly comprised of the recovery of costs from BAA Group entities in accordance with the SSA

Exceptional items
The Company presents, on the face of the profit and loss account, disclosure of exceptional items Exceptional items are material items of income and expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Company's financial performance

Such events may include gains or losses on disposal of businesses or assets, major reorganisation of business, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project

Additional details of exceptional items are provided as and when required as set out in Note 3

Under the terms of the SSA, the Company has the ability to recover an amount equal to the existing pension deficit from the operating companies of the BAA Group Based on this principle, an amount receivable is booked reflecting this legal right and movements in the receivable due to changes during the period in the BAA Group's pension deficit are recorded as exceptional charges or income due to their unusual nature

Interest
Interest payable and interest receivable are recognised in the profit and loss account in the period in which they are incurred

Tangible fixed assets

Operational assets

Plant, equipment and other assets are stated at cost less accumulated depreciation and impairment losses

Depreciation

Depreciation is provided on operational assets to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as set out below

Plant and equipment	*Fixed asset lives*
Office equipment	5 – 10 years
Computer equipment	4 – 5 years
Computer software	3 – 7 years

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date

Impairment of assets (excluding investment in subsidiaries)

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount Where the asset does not generate cash flows that are independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated Recoverable amount is the higher of an asset's net realisable value and its value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised If that is the case the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset

Company as a lessee

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed

Company as a lessor

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as the rental income

Investments

Investments in subsidiary held as fixed assets are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable

Investments in subsidiary undertakings include interest free loans to subsidiaries that have no fixed repayment date

Other investments are accounted for in accordance with FRS 26 on the basis more fully set out below under 'Financial assets'

Debtors
Debtors are recognised initially at cost less any provision for diminution in value and subsequently measured at amortised cost, using the effective interest rate method, less any provision for impairment

Cash and current asset investments
Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand, when a right to offset exists

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market Liquid resources comprise term deposits less than one year (other than cash) and investments in money market managed funds

Creditors
Creditors are recognised initially at cost and subsequently measured at amortised cost using the effective interest rate method

Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest rate method

Deferred income
Contractual income is treated as deferred income and released to the profit and loss account as earned

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material

Restructurings
A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity

Classification of financial instruments issued by the Company
In accordance with FRS 25 'Financial Instruments Presentation', financial instruments issued by the Company are treated as equity (i e forming part of shareholder's funds) only to the extent that they meet the following two conditions

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium reserve exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges

Finance payments associated with financial instruments that are classified as part of shareholder's funds, are dealt with as appropriations in the reconciliation of movements in shareholder's funds

The Company is exempt from reporting information under FRS 29 'Financial Instruments Disclosures' because the consolidated financial statements of its intermediate parent BAA Limited, prepared group accounts in accordance with IFRS 7 'Financial Instruments Disclosures'

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value

Derivative financial instruments *continued*
The Company does not currently designate its derivatives in a hedge relationship

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months, and as a current asset or liability where it is less than 12 months Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity Changes in the fair value of any of these derivative instruments are recognised immediately in the profit and loss account

The interest payable and receivable on those derivatives are recorded at their gross amount in interest payable and interest receivable in the profit and loss account

Financial assets
On initial recognition, financial assets are measured at fair value, plus, in the case of investments not at fair value through the profit or loss account, directly attributable transaction costs After initial recognition, investments that are classified as 'held-for-trading' and 'available-for-sale' are measured at fair value Fair value gains or losses on investments held-for-trading are recognised in the profit and loss account Fair value gains or losses on available-for-sale investments are recognised in a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative fair value gain or loss previously reported in equity is included in the profit and loss account In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indication that the security is impaired If impairment is indicated, the cumulative fair value gain or loss previously reported in equity is included in the profit and loss account

Assets classified as 'loans and receivables' or 'held-to-maturity' are recognised on the balance sheet at amortised cost, using the effective interest rate method, less any provision for impairment

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are carried at amortised cost using the effective interest rate method Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intent and ability to hold-to-maturity are classified as 'held-to-maturity' and are carried at amortised cost using the effective interest rate method For investments carried at amortised cost, gains and losses are recognised in the profit and loss account when the investments are de-recognised or impaired, as well as through the amortisation process

For investments that are traded in an active market, fair value is determined by reference to quoted market bid prices at the reporting date For investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows, or by reference to the current market value of similar investments

Purchases and sales of investments are recognised on trade-date being the date on which the Company commits to purchase or sell the asset

Investments are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the sale and the sale is expected to be completed within one year of the date of classification Assets classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs

Shared Services Agreements ('SSA')
The Company directly employs the employees of the BAA Group with the exception of non-senior management at Heathrow Express Operating Company Limited ('HEX') The Company also acts as the provider of corporate and administrative services to the BAA Group and sponsors the related defined benefit pension plans and grants all employee benefits related to it

On 18 August 2008, the Company entered into Shared Services Agreements, one with the BAA Group's Designated airports and the other with BAA Group's Non-designated airports, under which the Company provides the BAA Group with operational staff and corporate services

Operational staff
The Company charges the BAA Group companies for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of the Company in providing the services These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to employee share options All of the amounts included in the abovementioned costs are settled in cash except for superannuation costs and costs related to hedging of share options, which are only settled when the cash outflow is requested by the Company

Shared Services Agreements ('SSA') *continued*

Corporate and centralised services

The Company also provides centralised airport support including IT applications, general business services, procurement and financial accounting These services are charged in accordance with the SSA with a mark-up of 7 5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the BAA Group

Pension costs

Under the SSA the current period service cost for the Company's pension schemes are recharged to each of the airports within the BAA Group and HEX on the basis of their pensionable pay base

Cash contributions are made directly by the BAA Group's airports and HEX to the BAA Group's defined benefit and defined contribution pension schemes on behalf of the Company and the related payable, net of the current service cost charges to date, is recorded within Creditors - Amounts owed to group undertakings - pensions

In addition, each Airport and HEX has had a legal obligation since August 2008 to fund its share of the BAA Group's defined benefit pension scheme deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits (pension related liabilities) under the SSA The share of the deficit has been allocated to the Airports and HEX on the basis of pensionable salaries of those employees being in the defined benefit pension scheme and recorded as an exceptional item due to its unusual nature The amounts allocated to the Airports and HEX are recorded in Debtors - Amounts owed by group undertakings - pensions

Employee benefits

The Company operates a defined contribution pension scheme for all employees who joined the Company after 15 June 2008 The Company also has a defined contribution pension scheme in respect of employees of BAA Business Support Centre Limited The total cost of defined contribution pension arrangements are fully expensed as employment costs The Company has no further payment obligations once the contributions have been paid

The Company's primary UK pension fund is a self administered defined benefit scheme now closed to new employees In accordance with FRS 17, 'Retirement benefits' the service cost of the pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the profit and loss account A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the Company's long term expected return on assets (based on the market value of the scheme assets at the start of the period) are included in the profit and loss account

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which arise from experience or assumption changes

Further information on pension arrangements is set out in Note 14

Share-based payments

The Company historically operated an Executive Share Option Plan ('ESOP') to provide awards of options over Ferrovial S A shares that were generally reserved for full time directors and other senior employees This plan was closed in 2009 and replaced by a Performance Cash Plan

Due to amendment of FRS 20 in August 2009, there has been a change in accounting policy and option plans are now accounted for as cash-settled share-based payment transactions in accordance with the grant being made over Ferrovial S A shares and the Company has an obligation to settle the share-based payment transaction This has been retrospectively adjusted for in the profit and loss account

For cash-settled share-based payments, a liability is recognised for the services acquired, measured initially at the fair value of the liability At the balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year

Options are granted with a fixed exercise price equal to the market price of the shares at the date of grant The exercise period for options commences three years from the option grant date and lasts for three years Vesting of the options is subject to continued employment and the BAA Group achieving targeted levels of EBITDA

The Company has a number of cash-settled equity swaps that are treated as derivative financial instruments and are intended to hedge the future cash flows required on potential exercise of the options The fair value of these equity swap arrangements is recorded in the balance sheet with the gain or loss incurred in the period recorded within the profit and loss account

Accounting policies for the year ended 31 December 2010 *continued*

Share-based payments *continued*
A Performance Cash Plan provides senior managers with an annual award related to a percentage of their basic salary (dependent on grade) A percentage of the award will be paid as a cash lump sum to participants 3 years from the date of the award subject to financial performance conditions having been met

Current and deferred taxation
The tax expense for the year comprises current and deferred tax Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in reserves In this case, the tax is also recognised in reserves

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation

In accordance with FRS 19, 'Deferred Tax', deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred tax asset or liability is realised or settled

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve

Dividend distribution
A dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the shareholder's right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting Interim dividends are recognised when paid

Foreign currency
Transactions denominated in foreign currencies are translated into Sterling using the exchange rates prevailing at the dates of transactions Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date Differences arising on translation are charged or credited to the profit and loss account

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2010 The results are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2010 (the intermediate parent entity and the smallest group to consolidate these financial statements) Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1, 'Cash flow statements (revised 1996)'

The Company is exempt under the terms of FRS 8, 'Related Party Disclosures', from disclosing related party transactions with entities that are related to, or part of the FGP Topco Limited group However, transactions and balances in relation to the provision of services under the SSA between the Company and subsidiaries of the FGP Topco Limited Group are disclosed in the notes to the financial statements

Significant accounting judgements and estimates for the year ended 31 December 2010

In applying the Company's accounting policies, management have made estimates and judgements in a number of key areas Actual results may, however, differ from the estimates calculated and management believe that the following areas present the greatest level of uncertainty

Pensions
Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at year end and future returns on pension scheme assets and charges to the profit and loss account The factors have been determined in consultation with the Company's actuary taking into account market and economic conditions Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Company's liability for pension obligations The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the Statement of total recognised gains and losses Further details are available in Note 14

Taxation
Provisions for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures Amounts provided are based on management's interpretation of UK tax law and the likelihood of settlement Tax benefits are not recognised unless the tax positions are probable of being sustained In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation All such provisions are included in current tax liabilities

Investment valuation
The Company reviews investments in subsidiaries for impairment if there are any indications that the carrying values may not be recoverable The carrying value of the investment is compared to the recoverable amount of the subsidiary and where a deficiency exists, an impairment charge is considered by management The recoverable amount has been calculated using the fair value less cost to sell methodology Fair value less cost to sell has been calculated based on discounted cash flow projections of the business

BAA Airports Limited

Notes to the financial statements for the year ended 31 December 2010

1 Turnover

The directors consider the business has only one segment All of the Company's revenue arises in the United Kingdom from other group companies under the terms of the SSA referred to in the statement of accounting policies

2 Operating costs - ordinary

	Year ended 31 December 2010 £m	Restated[1] Year ended 31 December 2009 £m
Wages and salaries	**377 5**	440 1
Social security	**29 6**	33 9
Pensions[2]	**44 0**	32 1
Other staff related costs	**15 7**	22 8
Share-based payments	**3 7**	5 0
Employment costs[3]	**470 5**	533 9
Maintenance expenditure	**31 0**	36 1
Utility costs	**1 1**	0 5
Rents and rates	**3 6**	1 6
General expenses	**26 7**	6 4
Retail expenditure	**10 7**	9 4
Intra-group charges/other[4]	**62 5**	50 1
Depreciation - owned assets	**1 9**	3 7
Embedded derivatives in electricity purchase contracts	**-**	1 5
Capitalised staff costs[5]	**(63 2)**	(54 3)
Loss/(gain) on disposal of tangible fixed assets	**0 1**	(0 2)
	544 9	588 7

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures Comparatives include operating costs related to Gatwick Airport which was sold in 2009
[2] Pension costs include amounts relating to both the Defined benefit and Defined contribution schemes operated by the Company
[3] Employment costs comprise all the Company's employee costs including those involved in running the operational activities of the Airports Refer to SSA accounting policy
[4] Intra-group charges/other comprise principally IT and shared service costs recharged from other BAA Group companies
[5] Capitalised staff costs relate mainly to wages and salaries incurred on behalf of Heathrow airport which were directly recharged through intercompany to the related capital projects

Rentals under operating leases

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Operating costs include		
Plant and machinery	**0 6**	0 9
Other operating leases	**2 9**	1 5

Auditors' remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by the Company and recharged in accordance with the SSA as described within the Accounting policies

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts[1]		
The audit of the Company pursuant to legislation	**0 5**	0 4
Fees payable to the Company's auditors and their associates for other services to the Company		
Tax services	**0 1**	-
Corporate finance services	**0 2**	-
Other services	**0 1**	-
Total non-audit fees	**0 4**	-
Total fees	**0 9**	0 4

[1] Auditors' remuneration for the year ended 31 December 2010 relates to Deloitte LLP following their appointment on 1 April 2010 as statutory auditor (2009 PricewaterhouseCoopers LLP)

2 Operating costs – ordinary *continued*

Employee information

All of the Company's employees were based in the United Kingdom and the average monthly number of employees (including executive directors) of the Company was as follows

	Year ended 31 December 2010 Number	Restated[1] Year ended 31 December 2009 Number
Airports[2]	7,925	10,377
BAA Lynton Management Limited	5	9
Other operations	1,177	1,230
	9,107	11,616

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures

[2] The employee numbers in 2009 include 2,274 employees related to Gatwick airport and were calculated for the 11 months prior to the date of disposal

Directors' remuneration

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Directors' remuneration		
Aggregate remuneration	-	765
Value of Company pension contributions to defined contribution scheme	-	42
Sums paid to related parties for directors' services	-	140
	-	947

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Highest paid director's remuneration		
Aggregate remuneration	-	285

	Year ended 31 December 2010 Number	Year ended 31 December 2009 Number
Number of directors who		
are members of a defined benefit pension scheme	-	1
are members of a defined contribution pension scheme	3	3

During 2010, the BAA Group has continued to focus on decentralising the management of its airports As a result, all remuneration in relation to the Company's directors has been apportioned to other companies within the BAA Group based on services provided In 2009 accurate apportionment of remuneration was not possible based on services provided and as such the remuneration in relation to the Company's directors for that period of 2009 for which they were directors is disclosed within the Company's comparative year

Jose Leo, John Holland-Kaye and Steven Morgan were directors of a number of companies within the BAA Group and paid by BAA Airports Limited during the current and preceding financial year Their remuneration for the year ended 31 December 2010 was apportioned based on services provided to specific companies for which they were directors and as such is disclosed within the statutory financial statements for the following companies, Jose Leo – BAA Limited (2009 BAA Limited) and John Holland-Kaye and Steven Morgan – Heathrow Airport Limited (2009 BAA Airports Limited)

Nicholas Cullen and Michael Brown were directors of a number of companies within the BAA Group during the year, including Heathrow Airport Limited which also paid their remuneration The Directors do not believe it is possible to accurately apportion the remuneration of these Directors to individual companies within the BAA Group based on services provided and therefore their remuneration is disclosed within Heathrow Airport Limited's statutory financial statements for that period of 2010 for which they were directors (2009 Heathrow Airport Limited)

In accordance with a long term incentive scheme, a cash amount could be awarded to three of the five directors who held office during 2010 which vests in 2012 contingent on achieving or surpassing certain EBITDA targets of the BAA Group over a three year period As the financial performance is uncertain at this stage no value in relation to this award is disclosed

No directors (2009 none) exercised any share options during the year and no shares (2009 none) were received or became receivable under long term incentive plans

3 Operating costs - exceptional

	Year ended 31 December 2010 £m	Year ended[1] 31 December 2009 £m
Pension (cost)/credit	**(105 0)**	258 0
Other exceptional credit/(costs)	**3 6**	(4 2)
Loss on sale of operations	**(0 6)**	-
Legal fees	-	(3 0)
	(102 0)	250 8

[1] The presentation of certain balances as at 31 December 2009 has been restated to be consistent with current year disclosures

During 2010, there was a net exceptional pension charge of £105 0 million (2009 £258 0 million credit) This reflected a reduction in the amounts that could become payable to the Company by the other entities in the BAA Group due to the net reduction in pension scheme deficits The charge comprised a £103 7 million charge (2009 £255 6 million credit) in relation to the BAA Group's defined benefit pension scheme and £1 3 million charge (2009 £2 4 million credit) in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits For more information on pension costs charged in accordance with the SSA refer to the Accounting policies

4 Net interest receivable and similar income

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Interest receivable		
Interest receivable from other group undertakings	**565 4**	526 2
Interest receivable on derivative financial instruments	**4 2**	5 7
Interest receivable on money market and bank deposits	**0 3**	1 0
Interest from available for sale financial assets	**1 7**	1 8
Interest from other financial assets	**6 1**	5 9
	577 7	540 6
Interest payable		
Interest on borrowings from other group undertakings	**(54 1)**	(20 7)
Interest payable on derivative financial instruments	**(3 2)**	(1 5)
Interest on bank borrowings	-	(0 5)
Interest on bonds	-	(2 0)
Facility fees	**(0 5)**	(4 8)
	(57 8)	(29 5)
Net interest receivable and similar income	**519 9**	511 1

Fair value (loss)/gain on financial instruments

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Embedded derivatives in electricity purchase contracts	-	(1 5)
Fair value loss in operating profit	-	(1 5)
Equity swaps	**(5 6)**	43 1
Fair value re-measurements of foreign exchange contracts and currency balances	**0 2**	(0 7)
Fair value (loss)/gain in finance costs	**(5 4)**	42 4

5 Dividends receivable

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Final dividend for the year ended 31 December 2010	**Realised**	Realised
BAA Insurance Services Limited – £26 per £1 ordinary share (2009 £10 per £1 ordinary share)[1]	**2 6**	1 0
Final dividend for the year ended 31 December 2010	**2 6**	1 0

[1] Annual trading dividend received from BAA Insurance Services Limited

6 Tax on profit on ordinary activities

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Current tax		
Group relief payable	147 9	131 6
Tax payable	0 3	-
Adjustments in respect of prior periods	9 1	0 8
Total current tax	157 3	132 4
Deferred tax		
Origination and reversal of timing differences – non pension	(10 6)	24 5
Origination and reversal of timing differences – pension	(27.7)	72 5
Change in tax rate	(5 1)	-
Total deferred tax	(43 4)	97 0
Tax charge on profit on ordinary activities	113.9	229 4

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2009 28%) The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Profit on ordinary activities before tax	425 0	825 7
Tax on profit on ordinary activities at 28% (2009 28%)	119 0	231 2
Effect of		
Permanent differences	1 1	5 3
Non-taxable income	(0 7)	(10 6)
Temporary timing differences	28 8	(94 3)
Adjustments to tax charge in respect of prior periods	9 1	0 8
Current tax charge for the year	157 3	132 4

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK would change to 27% with effect from 1 April 2011 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 On 29 March 2011, legislation was introduced for reductions in the rate of corporation tax to 26% from 1 April 2011 Other than changes to the tax rate there are no items which would materially affect the future tax charge

7 Tangible assets

	Plant, equipment & other assets £m	Restated[1] Operational land £m	Total £m
Cost			
1 January 2010	26 1	1 9	28 0
Additions at cost	1 3	-	1 3
Inter-company transfer	(1 2)	-	(1.2)
Disposals	(0 6)	-	(0 6)
31 December 2010	25 6	1 9	27 5
Depreciation			
1 January 2010	(22 3)	-	(22 3)
Charge for the year	(1 9)	-	(1 9)
Disposals	0 5	-	0.5
31 December 2010	(23 7)	-	(23 7)
Net book value 31 December 2010	1 9	1 9	3.8
Net book value 31 December 2009	3 8	1 9	5.7

[1] The presentation as at 31 December 2009 has been restated to include £1 9 million of assets in the course of construction within operational land

8 Investments

	Restated[1] Subsidiaries £m	Available for sale investments £m	Total £m
Cost			
1 January 2010	5,305 3	22 8	5,328 1
Additions	317 4	-	317 4
Disposals	(0 4)	-	(0 4)
31 December 2010	**5,622 3**	**22 8**	**5,645.1**
Revaluation			
1 January 2010	-	5 2	5 2
Revaluation	-	0 6	0 6
31 December 2010	**-**	**5 8**	**5 8**
Net book value 31 December 2010	**5,622 3**	**28 6**	**5,650 9**
Net book value 31 December 2009	5,305 3	28 0	5,333 3

[1] The presentation of certain balances as at 31 December 2009 has been restated to include £1 9 million of investments in joint ventures within subsidiaries

Subsidiaries

On 28 January 2010, the Company subscribed to 217,370,315 ordinary shares of £1 in BAA (DSH) Limited

On 10 September 2010, the Company subscribed to an additional 100,000,000 ordinary shares of £1 in BAA (DSH) Limited

The Company's principal subsidiaries whose financial position materially affects the Company are as follows

Immediate subsidiaries are

Subsidiary	Nature of business	% of share capital held	Class of share
BAA (DSH) Limited	Holding Company	100	Ordinary shares of £1 each
BAA Enterprises Limited	Investment Company	100	Ordinary shares of £1 each
BAA Italia S P A[1 2]	Airport management	100	Ordinary shares of €0 52 each
BAA International Limited	Holding Company	100	Ordinary shares of £1 each

[1] 1 76% of share capital is held indirectly through BAA International Limited

[2] On 21 December 2010 BAA Italia SPA completed the disposal of its Italian business, being principally its 65% shareholding in Societe Gestione Servizi Aeroporti SPA the owner of Naples International Airport to an entity controlled by F2i SGR SpA, for €147 million (£125 million)

In the opinion of the Directors, the value of the shares in the subsidiary undertakings are not less than the amounts at which they are stated in the Company's Balance sheet

Indirectly held Operating subsidiaries are

Subsidiary	Nature of Business	% of share capital held	Class of share
Heathrow Airport Limited	Airport Operator	100	Ordinary shares of £1 each
		100	Redeemable Preference shares of £1 each
		100	Irredeemable Preference shares of £0 01 each
Stansted Airport Limited	Airport Operator	100	Ordinary shares of £1 each
Heathrow Express Operating Company Limited	Railway Operator	100	Ordinary shares of £1 each
BAA Funding Limited[1]	Funding Company	100	Ordinary shares of £1 each

[1] Incorporated in Jersey

Indirectly held Holding subsidiaries are

Subsidiary	Nature of Business	% of share capital held	Class of share
BAA (AH) Limited	Holding Company	100	Ordinary shares of £0 0015 each
BAA (SP) Limited	Holding Company	100	Ordinary shares of £0 0019 each
BAA (SH) plc	Holding Company	100	Ordinary shares of £1 each

8 Investments *continued*

Available for sale investments

Available for sale investments include £28 6 million (2009 £28 0 million) in respect of a 4 19% equity interest in National Air Traffic Services Holdings Limited ('NATS'), the UK's national air traffic services provider The Company does not exercise significant long term influence over NATS and accordingly the investment has been classified as an available for sale investment

The equity investment is valued by discounting the forecast dividend stream and an assigned terminal value to the equity in 2031 A rate of 10 0% (2009 10 0%) has been used as the discount factor

Disclosure of the BAA Group's financial risk management framework, including the governance of its available for sale investments, is included in Note 19 of the FGP Topco Limited consolidated financial statements for the year ended 31 December 2010

9 Debtors

	Note	31 December 2010 £m	Restated[1] 31 December 2009 £m
Due within one year.			
Trade debtors		**1.1**	1 3
Amounts owed by group undertakings – interest fee[2]		**51 0**	37 9
Amounts owed by group undertakings – interest bearing[3]		**22 7**	42 5
Interest receivable from parent undertaking[4]		**273.3**	251 1
Amounts owed by group undertakings – pensions[5]		**62 9**	274 1
Prepayments		**11.7**	8 9
Other debtors[8]		**64 9**	9 1
		487 6	624 9
Due after more than one year			
Derivative financial instruments[6]		**8 0**	10 3
Amounts owed by parent undertaking[7]		**6,872.3**	6,481 2
Deferred tax asset	15	**12.1**	-
Other debtors[8]		**-**	59 0
		6,892.4	6,550 5
Total debtors		**7,380.0**	7,175 4

[1] The presentation of certain balances as at 31 December 2009 has been restated to be consistent with current year disclosures
[2] Group undertakings – interest free are receivable from BAA Business Support Centre Limited in relation to its role as agent for payments and collection of cash on behalf of the Company under the SSA Prior year balances have been restated to be consistent with current year disclosures
[3] These are amounts owed by group undertakings which have arisen over a number of years and accrue interest at 1 5% over Bank of England base rate There are no fixed terms for repayment
[4] This relates to interest receivable from the parent entity (BAA Airports Holdco Limited) on the £6 872 3 million (2009 £6,481 2 million) loan due after more than one year
[5] This balance represents amounts due to the Company in respect of the allocation of the deficits on the BAA Group defined benefit pension scheme and the Unfunded Retirement Benefit and Post Retirement Medical Benefits schemes
[6] The Company has entered into a number of equity swaps to hedge share price risk under the wider BAA Group's ESOP The £8 0 million (2009 £10 3 million) relates to those equity swaps with a positive mark to market fair value The total ESOP derivative portfolio consists of 11 7 million shares at a total mark to market liability of £75 6 million as at 31 December 2010 (2009 11 7 million shares with mark to market liability of £69 9 million)
[7] Amounts owed by parent undertaking relates to BAA Airports Holdco Limited This amount accrues interest at 8 24% at 31 December 2010 (2009 8 24%)
[8] Other debtors include loan notes due from Caisse de depôt et placement du Québec of £62 5 million (2009 £59 0 million) that were received on disposal of Budapest Airport with a maturity of June 2011

10 Current asset investment

	31 December 2010 £m	31 December 2009 £m
Short term deposits	**193 9**	40 3

Short term deposits held at 31 December 2010, including the proceeds from the disposal of Naples, totalled £193 9 million (2009 £40 3 million) and attracted floating interest rates ranging from 0 42% to 0 69% Board approved investment policies and relevant debt facility agreements provide counterparty investment limits based on short and long term credit ratings Of these deposits, counterparties with a short term credit rating of A-1+ held assets of £119 7 million, A-1 held assets of £60 0 million and A-2 £14 2 million as at 31 December 2010

BAA Airports Limited

Notes to the financial statements for the year ended 31 December 2010 *continued*

11 Cash at bank and in hand

	31 December 2010 £m	Restated[1] 31 December 2009 £m
Cash at bank and in hand	**13 4**	17 2

[1] The presentation of certain balances as at 31 December 2009 has been restated to be consistent with current year disclosures reflecting BAA Business Support Centre Limited's role as agent for payments and collection of cash on behalf of the Company under the SSA

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates subject to interest rate risk

The fair value of cash at bank and in hand approximates its book value

12 Creditors amounts falling due within one year

	31 December 2010 £m	Restated[1] 31 December 2009 £m
Trade creditors	**70 1**	59 1
Deferred income	**5 6**	7 4
Amounts owed to group undertakings[2]	**502 3**	277 8
Amounts owed to group undertakings – pension[3]	**79 0**	40 4
Corporation tax payable	**111 0**	111 0
Group relief payable[4]	**148 1**	126 1
Other tax and social security	**1 9**	1 9
Capital creditors	**0 1**	0 1
Dividends payable	**3 7**	3 7
Other creditors	**12 5**	17 4
	934 3	644 9

[1] The presentation of certain balances as at 31 December 2009 has been restated to be consistent with current year disclosures

[2] Amounts owed to group undertakings include balances totalling £424 1 million (2009 £218 3 million) which accrue interest at 1 5% over Bank of England base rate There are no fixed terms for repayment of these balances In addition there are trading balances of £78 2 million (2009 £59 5 million) due to group undertakings which are interest free and are settled on a monthly basis

[3] Amount owed to group undertakings – pension is payable to BAA Group's airports and HEX, net of current service cost charges to date due to cash contributions made directly by the BAA Group's airports and HEX to the pension trustee of the BAA Group s defined benefit pension scheme on behalf of the Company

[4] Group relief is payable to other entities in the wider BAA Group who have surrendered losses in the period

13 Creditors amounts falling due after more than one year

	31 December 2010 £m	Restated[1] 31 December 2009 £m
Amounts owed to group undertakings[2]	**2,801 4**	2,771 6
Derivative financial instruments[3]	**83 6**	80 2
Other creditors	**2 1**	2 2
	2,887 1	2,854 0

[1] The presentation of certain balances as at 31 December 2009 has been restated to be consistent with current year disclosures

[2] Amounts owed to group undertakings include balances totalling £2 691 0 million (2009 £2,689 0 million) which accrue interest at 1 5% over Bank of England base rate In addition, there are balances of accrued interest of £110 4 million (2009 £82 6 million) relating to these group balances

[3] The Company has entered into a number of equity swaps to hedge share price risk under the wider BAA Group's Executive Share Option Plan ('ESOP') The total ESOP derivative portfolio consists of 11 7 million shares at a total mark to market liability of £75 6 million as at 31 December 2010 (2009 11 7 million shares with mark to market liability of £69 9 million) The £83 6 million (2009 £80 2 million) relates to those equity swaps with a negative mark to market fair value This amount is covered by the SSA and in the case it had to be settled it would be recharged to, and provided by, the BAA Group s airports

14 Retirement benefit obligations

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
BAA Group Pension scheme	**40**	44[1]
Defined contribution schemes	**3**	2
Additional provision for unfunded pensions	**1**	1
Total operating charge to employment costs	**44**	47

[1] Included in BAA Group Pension scheme is an amount of £12 million relating to pension abatement costs which have been charged to the profit and loss account in prior years

14 Retirement benefit obligations *continued*

	31 December 2010 £m	31 December 2009 £m
BAA Group Pension scheme	**(44)**	(256)
Unfunded pension obligations	**(19)**	(17)
Post-retirement medical benefits	**(4)**	(4)
Liability at end of year	**(67)**	(277)
Related deferred tax asset[1]	**41**	91
Net liability recognised in the balance sheet	**(26)**	(186)

[1] This comprises a deferred tax asset of £35 million (2009 £85 million) relating to the BAA Group Pension Scheme and a deferred tax asset of £6 million (2009 £6 million) relating to the unfunded pension obligation and post retirement medical benefits

(a) BAA Pension Scheme

The Company operates one main defined benefit pension scheme for its UK employees, the BAA Pension Scheme ('the Scheme'), which is a funded defined benefit scheme with both open and closed sections The Scheme closed to employees joining the BAA Group after 15 June 2008 The Scheme's assets are held separately from the assets of the Company and are administered by trustees (the 'Trustees')

The value placed on the liabilities of the scheme as at 31 December 2010 is based on a roll forward of detailed calculations carried out by the Scheme Actuary as at 30 September 2009 These were based on individual member data, approximately adjusted for the impact of the Gatwick transfer The liabilities have been updated by KPMG LLP to take account of changes in economic and demographic assumptions, in accordance with Financial Reporting Standard 17 'Employee Benefits' The Scheme assets are stated at their bid value at 31 December 2010 The Company's accounting policy is to recognise actuarial gains and losses as they occur in the Statement of total recognised gains and losses

The financial assumptions used to calculate the Scheme assets and liabilities under FRS 17 are

	31 December 2010 %	31 December 2009 %
Rate of increase in pensionable salaries	**5 1**	5 2
Increase to deferred benefits during deferment	**3 6**	3 7
Increase to pensions in payment		
Open section	**3 5**	3 6
Closed section	**3 6**	3 7
Discount rate	**5 5**	5 7
Inflation assumption	**3 6**	3 7
Expected return on plan assets		
Equities	**7 9**	8 2
Bonds	**5 2**	5 5
Cash	**0 5**	0 5

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 25 9 years (2009 24 8 years) and 27 9 years (2009 25 9 years) from age 60 for a 40 year old male non-pensioner

The accounting standard requires that the discount rate used be determined by reference to market yields at the reporting date on high quality fixed income investments The currency and term of these should be consistent with the currency and estimated term of the post-employment obligations The discount rate has been based on the yield available on AA rated corporate bonds of a term similar to the liabilities

The expected rate of inflation is an important building block for the salary growth and pension increase assumptions A rate of inflation is "implied" by the difference between the yields on fixed and index-linked government bonds

To develop the expected long term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class

For bond investments with fixed interest rates the expected yield is derived from their market value

In respect of the equity investments, investment returns are variable and are generally considered "riskier" investments It is generally accepted that the return on equity investments contains a premium, "the equity risk premium", to compensate investors for the additional risk of holding this type of investment There is significant uncertainty about the size of this risk premium The assumption chosen is within the range of long term market expectations

14 Retirement benefit obligations *continued*

The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long term rate of return on assets assumption for the portfolio This resulted in the selection of the 6 3% assumption (2009 6 6%)

The target asset allocation is 40 60 equities to bonds

The amounts charged to Operating profit are as follows

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Current service cost	**49**	54
Finance cost on benefit obligation	**129**	120
Expected return on plan assets	**(138)**	(145)
Curtailment gain	**-**	(25)
Settlement loss	**-**	25
Past service cost	**-**	15
Total operating charge to employment costs	**40**	44

The amounts recognised in the Statement of total recognised gains and losses

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Actual return less expected return on plan assets	**75**	(71)
Experience gains and losses arising on the benefit obligation	**20**	67
Changes in assumptions underlying the present value of the benefit obligation	**(33)**	(400)
Actuarial gain/(loss) recognised in the Statement of recognised gains and losses	**62**	(404)

The actual return on plan assets was £213 million (2009 £74 million)

The actuarial loss of £33 million (2009 loss of £400 million) arising from changes in assumptions in the year ended 31 December 2010 resulted primarily from

- a reduction in the discount rate assumption to 5 5% (2009 5 7%) increasing the present value of the defined benefit obligation by £68 million
- a reduction in the inflation rate assumption to 3 6% (2009 3 7%) reducing the present value of the defined benefit obligation by £43 million
- a net increase of £8 million is mainly due to changes in the demographic assumptions which includes the introduction of 1% underpin to the future improvement of mortality assumption

The amounts recognised in the Balance sheet are determined as follows

	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m
Fair value of plan assets					
Equities	**521**	635	946	1,119	1,514
Bonds	**978**	1,131	1,113	1,062	573
Other	**860**[1]	263	23	92	38
Total fair value of plan assets	**2,359**	2,029	2,082	2,273	2,125
Present value of benefit obligation	**(2,403)**	(2,285)	(1,987)	(2,123)	(2,332)
Gross (deficit)/surplus in scheme at end of period	**(44)**	(256)	95	150	(207)
Related deferred tax asset/(liability)	**35**	85	(27)	(42)	62
(Deficit)/surplus recognised in the Balance sheet	**(9)**	(171)	68	108	(145)

[1] Includes £26 million of synthetic equities and £627 million of synthetic bonds

Notes to the financial statements for the year ended 31 December 2010 *continued*

14 Retirement benefit obligations *continued*

Analysis of movement in the benefit obligation

	31 December 2010 £m	31 December 2009 £m
Benefit obligations at beginning of the year	2,285	1,987
Movement in the year		
Current service cost	49	54
Finance cost	129	120
Members' contributions	12	15
Past service cost	-	15
Actuarial loss	13	333
Curtailment gain	-	(25)
Transferred liabilities of Gatwick	-	(128)
Benefits paid (by fund)	(85)	(86)
Benefit obligations at end of year	2,403	2,285

The BAA Group has reached an agreement with the Trustees to contribute £80 million per annum plus the cost of augmentation of members' benefits under the Scheme following redundancy The BAA Group currently expects to contribute £80 million to the Scheme in the year ending 31 December 2011

Analysis of defined benefit obligation

	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m
Plans that are wholly or partly funded	(2,403)	(2,285)	(1,987)	(2,123)	(2,332)
Plans that are wholly unfunded	(23)	(21)	(20)	(22)	(21)
	(2,426)	(2,306)	(2,007)	(2,145)	(2,353)

Movements in the fair value of the plan assets were as follows

	31 December 2010 £m	31 December 2009 £m
Fair value of plan assets at the beginning of year	2,029	2,082
Expected return on plan assets	138	145
Actuarial gain/(loss)	75	(71)
Employer contributions (including benefits paid and reimbursed)	85	97
Members' contributions	12	15
Gatwick commutation payment	105	-
Bulk transferred assets for Gatwick	-	(153)
Benefits paid (by fund)	(85)	(86)
Fair value of plan assets at end of year	2,359	2,029

14 Retirement benefit obligations *continued*

History of experience gains and losses

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	9 months ended 31 December 2006
Difference between the expected and actual return on scheme assets					
Amount £m	**75**	(71)	(343)	(4)	(57)
Percentage of scheme assets	**3 2**	(3 5)	(16 5)	(0 2)	(2 7)
Experience gains and losses on benefits obligations					
Amount £m	**20**	67	28	130	(8)
Percentage of scheme liabilities	**0 8**	2 9	1 4	6 1	(0 3)
Amount recognised in the statement of total recognised gains and losses					
Amount £m	**62**	(404)	(59)	375	(58)
Percentage of scheme liabilities	**2.6**	(17 7)	(3 0)	17 7	(2 5)

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the discount rate

	Annual impact in profit and loss account		**Impact in equity**	
	£m	**£m**	**£m**	**£m**
Sensitivity analysis based on change in discount rate	Before tax	After tax	Before tax	After tax
+0 50% discount rate	7	5	217	156
-0 50% discount rate	(8)	(6)	(250)	(180)

The table below is provided to give an indication of the sensitivity of the retirement benefit obligation to changes in the inflation rate

	Annual impact in profit and loss account		**Impact in equity**	
	£m	**£m**	**£m**	**£m**
Sensitivity analysis based on change in inflation rate	Before tax	After tax	Before tax	After tax
+0 50% inflation rate	(8)	(6)	(235)	(169)
-0 50% inflation rate	7	5	207	149

A change in the mortality assumption causing a 1 year increase in life expectancy would have a £61 million impact on the retirement benefit obligation and a £2 million impact on the forward looking service cost

(b) Other pension and post-retirement obligations

The Company operates a defined contribution scheme for all employees who joined the Company after 15 June 2008 The Company also has a defined contribution scheme in respect of employees of BAA Business Support Centre Limited The total cost of defined contribution arrangements fully expensed against operating profit in the year is £3 million (2009 £2 million)

The Company also provides unfunded pensions in respect of a limited number of former directors and current senior employees whose benefits are restricted by the Scheme rules The cost of these arrangements expensed against operating profit in the year is £1 million (2009 £1 million) The Company provides post-retirement medical benefits to certain pensioners The present value of the future liabilities under this arrangement of £4 million (2009 £4 million) is included in the balance sheet, along with provision for unfunded pension obligations of £19 million (2009 £17 million) The value of these unfunded pension and post retirement medical benefits exclude the associated deferred tax asset of £6 million (2009 £6 million) The value of the unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the defined benefit scheme's liabilities

15 Provisions for liabilities and charges

	Note	Deferred tax £m	Disposal of operations £m	Reorganisation costs £m	Total £m
1 January 2010		58 0	-	7 0	65 0
(Credited)/charged to profit and loss account		(41 5)	3 1	-	(38 4)
Utilised in the year		-	-	(1 4)	(1 4)
Charged to equity		(28 6)	-	-	(28 6)
Reclassification of deferred tax asset	9	12 1	-	-	12 1
31 December 2010		-	**3 1**	**5 6**	**8 7**

Deferred tax
Analysis of the deferred tax balances is as follows

	31 December 2010 £m	31 December 2009 £m
Excess of depreciation over capital allowances	**(3 1)**	(4 1)
Other short term timing differences	**10 6**	72 3
Financial instruments	**(19 6)**	(10 2)
(Asset)/Liability	**(12 1)**	58 0

Provision has been made for deferred taxation in accordance with FRS 19 'Deferred Tax'

The effect of the changes enacted in the Finance (No 2) Act 2010 has been to reduce the deferred tax provided at 31 December 2010 by £5 1 million with a corresponding increase in the tax credit for the year of £5 1 million as shown at Note 6 This decrease in the deferred tax liability is due to the reduction in the UK standard rate of corporation tax from 28% to 27% with effect from 1 April 2011, as substantively enacted at the reporting date

Disposal of operations
A provision is held for payment of costs associated with disposal of operations at Naples airport on behalf of BAA Italia S P A, subsidiary of the Company The corresponding entry is recorded as intercompany receivable from BAA Italia S P A

Reorganisation costs
The costs associated with the Company's reorganisation programmes are for severance and pension payments only All amounts are expected to be utilised in 2011

16 Called up share capital

	£
Authorised	
1 January 2010 1,555,000,000 ordinary shares of £1 each	1,555,000,000
Increase of 210,000,000 ordinary shares of £1 each	210,000,000
31 December 2010 1,765,000,000 ordinary shares of £1 each	**1,765,000,000**
Called up, allotted and fully paid	
1 January 2010 1,357,400,315 ordinary shares of £1 each	1,357,400,315
Issue of 210,000,000 ordinary shares of £1 each	210,000,000
31 December 2010 1,567,400,315 ordinary shares of £1 each	**1,567,400,315**

On 28 January 2010, the authorised share capital was increased by £210,000,000 by the creation of 210,000,000 shares of £1 each On the same day, the issued share capital was also increased by the same amount as a result of the issue of 210,000,000 ordinary shares of £1 each

17 Share premium reserve

	£m
1 January and 31 December 2010	**325 3**

18 Fair value and other reserves

	Equity option reserve £m	Fair value reserve £m	Available for sale investments £m	Capital redemption reserve £m	Total £m
1 January 2010	6 0	1 0	14 5	26 9	**48 4**
Fair value gain	-	-	0 6	-	**0 6**
Transfer of reserves	(6 0)	-	-	-	**(6 0)**
Deferred tax on fair value gain	-	-	(0 2)	-	**(0 2)**
Deferred tax-impact of change in rate	-	-	0 3	-	**0.3**
31 December 2010	-	**1 0**	**15 2**	**26 9**	**43 1**

19 Profit and loss reserve

	£m
1 January 2010	**7,091 2**
Profit for the financial year	**311 1**
Actuarial gain on pensions net of deferred tax	**39 1**
Transfer of reserves	**6 0**
Other movements	**3 2**
31 December 2010	**7,450 6**

20 Commitments

Commitments under operating leases
At 31 December 2010, the Company was committed to making the following payments during the next year in respect of operating leases

	Land & buildings 31 December 2010 £m	**Other leases 31 December 2010 £m**	Land & buildings 31 December 2009 £m	Other leases 31 December 2009 £m
Leases which expire				
within one year	**0 1**	-	0 1	0 2
within two to five years	-	-	0 1	0 1
	0 1	-	0 2	0 3

21 Contingent liabilities
The Company has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £51 8 million at 31 December 2010 (2009 £56 4 million)

The Company has provided a guarantee to Deutsche Trustee Company Limited for itself and on behalf of the BAA Guaranteed Bondholders in respect of bonds issued by BAA Funding Limited with scheduled redemption dates up to and including 15 February 2018 (other than the 4 125% €500 million bond due 2016)

22 Ultimate parent undertaking
The immediate parent undertaking of the Company is BAA Airports Holdco Limited, a company registered in England and Wales

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group in the UK to consolidate these financial statements The shareholders of FGP Topco Limited are Finecofer S L (55 9%) (a subsidiary of Ferrovial S A), Britannia Airport Partners L P (26 5%) (a Caisse de depôt et placement du Quebec-controlled vehicle) and Baker Street Investment Pte Ltd (17 6%) (an investment vehicle of the Government of Singapore Investment Corporation) The ultimate parent entity of the majority shareholder is Ferrovial S A (Spain)

The Company's results are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2010, which is the parent undertaking of the smallest group to consolidate these financial statements They are also included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2010

Copies of the financial statements of FGP Topco Limited and BAA Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW

23 Post balance sheet events

On 17 February 2011, the BAA Group was refused permission to appeal to the Supreme Court ('SC') in what would have been the latest stage of a legal process underway since the Competition Commission ('CC') published in March 2009 its decision relating to its investigation into the supply of UK airport services by the BAA Group The CC's key structural remedy called for the disposal of certain airports including Stansted airport as well as either Edinburgh or Glasgow airport

On 30 March 2011, the CC published a report provisionally deciding, following its recent consultation on the matter, that there have been no material changes in circumstances since its original decision in March 2009 and that therefore the scope of the remedies requiring the BAA Group to dispose of certain airports remains unchanged The CC invited responses to its provisional decision before publishing its final decision in June The BAA Group has submitted its comments to the CC reiterating its clear view that there have been several material changes in circumstances since the CC report was published in March 2009