

BAA AIRPORTS LIMITED

**Annual report and financial statements
for the year ended 31 December 2009**

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Company Registration Number 1970855

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Nick Cullen
John Holland-Kaye
José Leo
Steven Morgan

SECRETARY

Carol Hui

REGISTERED OFFICE

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INDEPENDENT AUDITORS

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Chartered Accountants and Statutory Auditors
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Glasgow
G2 7EQ

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London
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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 2009. BAA Airports Limited is an indirect subsidiary of BAA Limited (the 'BAA Group').

PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as the main service provider for the six UK airports ('the airports') held by BAA Limited, the intermediate parent entity of the Company. 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 the Shared Services Agreement ('SSA'). In addition, the Company is an indirect holding company of BAA (SP) Limited, which is the parent company within a ring-fenced group which owns Heathrow and Stansted airports (BAA's 'designated airports') and the Heathrow Express rail link between Heathrow and Paddington station.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

No significant changes to the activities of the Company occurred during the year, or are expected for the foreseeable future. Full details of the continuing SSA under which the Company provides the BAA Group with operational staff and corporate services can be found in Note 1 Accounting Policies. Key events and future developments which may significantly impact the financial position or performance of the Company and the wider BAA Group are disclosed below.

Regulatory developments

Gatwick disposal

On 3 December 2009, the BAA Group completed the sale of Gatwick airport for a cash consideration of £1,445 million and a deferred consideration of up to £55 million conditional on future traffic performance and the acquirer's future capital structure. BAA Airports Limited will continue to support certain areas of Gatwick operations during 2010 and 2011 through a number of technical service agreements with the airport purchaser.

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

In March 2009, the Competition Commission ('CC') published its final decision in relation to its investigation into the supply of UK airport services by BAA.

The decision's key structural remedy called for the disposal of airports including Gatwick and Stansted to different purchasers. It was expected that these airports would be sold in sequence, beginning with Gatwick followed by Stansted. It also suggested behavioural remedies including strengthening consultation processes and provisions on non-discrimination and quality of service at Heathrow airport. The CC also made recommendations relating to regulation and policy matters to other governmental bodies including that the UK government consider the adoption of a licence-based regime of economic regulation of UK airports.

In May 2009, BAA applied to the Competition Appeal Tribunal ('CAT') to review the CC's decision on two separate grounds. The first was that the participation of a member of the CC's inquiry panel in its investigation contravened the principle of apparent bias. The second was that, in assessing the proportionality of the disposal remedies, the CC failed to consider fully key issues relating to the costs of disposal, particularly in the context of the current financial and economic crisis.

In December 2009, the CAT upheld BAA's appeal on the grounds of apparent bias. On 10 February 2010, the CC announced that it was seeking leave to appeal to the Court of Appeal against the CAT's judgement. On 25 February 2010, the CAT ordered that the decisions of the CC in their report of 19 March 2009 relating to common ownership of airports be quashed. The CAT also ordered that the matter be referred back to the CC to reconsider but that this referral will not take effect until the dismissal of any appeal. The CAT also decided that the CC's and Ryanair's requests for permission to appeal be refused. However, the CC still has an opportunity to seek permission to appeal directly from the Court of Appeal.

Department for Transport ('DfT') review of UK airport economic regulation

In 2009, the Government substantially completed its review of the economic regulation of UK airports. BAA supports the review's conclusions which remove key uncertainties for BAA and its creditors and underline the need for the Civil Aviation Authority ('CAA') to ensure airport operators have the necessary resources to operate and invest in their airports.

DIRECTORS' REPORT (continued)**REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (continued)*****Regulatory developments (continued)******Department for Transport ('DfT') review of UK airport economic regulation (continued)***

The reforms include introducing a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate, by promoting effective competition. There will also be supplementary duties including having regard for the environmental impacts of airport development, meeting reasonable demands for airport services efficiently, ensuring airports can finance their activities and assisting in delivering airport infrastructure consistent with the UK Government's national aviation policy. Many of the reforms will be effected through a new tiered operating licence regime for airports similar to licences in place in certain other regulated sectors such as water and energy.

The BAA Group's designated airports are expected to be in the top tier of licence ('Tier 1'), subject to price control arrangements and also obliged to consult stakeholders on future plans for investment in, and the operation of, an airport, to report on environmental performance and to comply with service standards and measures to hold an operator to account for the delivery of agreed investment outputs, including a possible sanctions regime.

The reforms also include measures to promote the financial resilience of Tier 1 airports. These include introducing financial ring-fencing provisions that would broadly prohibit the granting or subsistence of security over airport assets, subject to derogations in respect of those elements that cut across existing financing arrangements. They will also require operators to maintain a minimum level of creditworthiness. However, the Government decided not to proceed with the introduction of a special administration regime that was proposed in its original consultation document.

In December 2009, the Government commenced further consultations on whether Tier 1 airports should be required to maintain a continuity of service plan for use in the event of insolvency and a mechanism for the CAA to switch on financial ring-fencing provisions that are subject to initial derogations where there has been a material change of circumstance and the benefits outweigh the costs. These consultations have ended and proposals arising from them are awaited.

Changes resulting from the review will be implemented by primary legislation as soon as parliamentary time allows. The regulatory settlements applying to Heathrow until March 2013 and to Stansted until March 2014 will not be affected by the proposed changes to the regulatory framework.

Issue of share capital and acquisition of BAA (DSH) Limited shares

On 13 November 2009, the authorised share capital was increased by £255 million by the creation of 255,000,000 ordinary shares of £1 each. On the same day, the issued share capital was increased by the same amount as a result of the issue of 255,000,000 ordinary shares of £1 each. The issue proceeds, together with an additional £27.6 million, were used to acquire 28,269,685 shares of BAA (DSH) Limited, the intermediate parent company of BAA (SP) Limited, as part of the £500 million equity injection into the BAA (SP) Group announced in November 2009.

Developments since beginning of 2010

In January 2010, the Company issued 210,000,000 ordinary shares with nominal value of £1.00 each to BAA Airports Holdco Limited. The issue proceeds, together with an additional £7.4 million, were used to purchase an additional 217,370,315 ordinary shares in BAA (DSH) Limited. This sequence of events completed a £500 million equity injection into BAA (DSH) Limited, and further into BAA (SP) Limited.

RESULTS AND DIVIDENDS

The profit after taxation for the financial year amounted to £596.3 million (2008: £1,841.4 million). The directors do not recommend the payment of a dividend in relation to the 2009 year (2008: interim dividend of 139.34p per share amounting to £1,536.1 million).

The statutory results for the year are set out on page 11.

KEY PERFORMANCE INDICATORS

The Company's directors believe that analysis using key performance indicators for the Company is not necessary because the development, performance and position of the Company's trading activities including performance against BAA Group wide key performance indicators is discussed within the Directors' Report of BAA Limited's Annual Report and Financial Statements on pages 2 to 12 for the year ended 31 December 2009, which does not form part of this report.

DIRECTORS' REPORT (continued)**DIRECTORS**

The directors who served during the year and since the year end are as follows

John Holland-Kaye	Appointed 31 July 2009
José Leo	Appointed 31 July 2009
Steven Morgan	Appointed 21 September 2009
Nick Cullen	Appointed 9 March 2010
Eng Seng Ang	Resigned 31 July 2009
Ghislain Gauthier	Resigned 31 July 2009
Luis Sánchez Salmerón	Resigned 31 July 2009
David Johnston	Appointed 31 July 2009 and resigned 21 September 2009
Michael Brown	Appointed 31 July 2009 and resigned 9 March 2010

COMPANY SECRETARY

Robert Herga resigned as Company Secretary on 22 April 2009 and was replaced by Carol Hui on the same day

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 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 with the Company, the Company endeavours to ensure continuing employment through the arrangement of appropriate training.

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 awards based on BAA Group performance.

PAYMENT POLICY

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 14 days purchases outstanding at 31 December 2009 (2008: 18 days) based on the average daily amount invoiced by suppliers during the year.

DIRECTORS' REPORT (continued)**RISK MANAGEMENT**

Risk management is a key element of the BAA Group operations of which the Company forms part. Risk is centrally managed for the BAA Group as part of corporate services provided under the Shared Services Agreement (refer to Note 1 Accounting Policies). 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 and security, environmental, commercial, financial, reputational and legal risks in pursuit of 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 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 review by 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 risks as identified by the Executive Committee are:

Safety and security risks

Safety and 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 reputational risks***Civil Aviation Authority ('CAA') regulation***

The BAA Group's operations are subject to regulatory review by the CAA and the CC every five years. The risk of an adverse outcome from the five-yearly review 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 at all stages of the constructive engagement process and to be represented on all fora – e.g. joint steering groups. When feedback is sought or processes measured, independent third parties are utilised for data gathering and analysis 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 ongoing requirements are articulated and understood.

DIRECTORS' REPORT (continued)**RISK MANAGEMENT (continued)****Regulatory environment, legal and reputational risks (continued)*****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 Company, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Company breaching these regulations. Refer to the 'Review of Business and Future Developments' section for details on the current DfT regulatory review and the Competition Commission's inquiry into the supply of UK airport services by BAA.

Capacity shortfall

Failure to secure necessary planning permissions could lead to the BAA Group's airports having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service. 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 the BAA Group's airports will be partly dependent on an appropriate level of investment incentives being provided in future regulatory settlements.

The UK Government's Aviation White Paper '*The Future of Air Transport*' ('the White Paper') was published in December 2003 and clarified the Government's policies regarding airport expansion for the whole of the country. It emphasised the need for airport operators to invest in delivering new capacity. The BAA Group and its subsidiaries recognise a need to manage airport development following the White Paper in a way that does not lead to a loss of public or political confidence. To mitigate this risk, separate dedicated project teams (with relevant expertise and disciplines) for Heathrow and Stansted have been established to work closely with local communities, airlines and other interested parties.

Environment

Environmental risks need to be managed throughout the BAA Group as they have the potential to impact the BAA Group's reputation and its licence to operate and to grow. The BAA Group mitigates these risks at a number of levels, including environmental management systems and training programmes embedded with operations, clear environmental strategies, resource conservation initiatives, proactive and progressive influencing of third parties, stakeholder engagement and community relations programmes. The BAA Group works closely with a range of stakeholders to ensure that it reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks***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 learned 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 2010 Pay negotiations started in December 2009. The BAA Group could also be exposed in the short term to the effect of industrial action at key clients (i.e. airlines).

DIRECTORS' REPORT (continued)**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's financial risk management objectives are aligned with 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 BAA Limited 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 spot and forward/swap 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 2009, fixed rate debt represented 83% of the BAA Group's total debt.

The BAA Group mitigates the risk of mismatch between aeronautical income and its 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 debt and derivatives.

(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 currency forward 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 an investment grade financing platform for its airports. The 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 both senior (A-/A-) and 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.

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.

(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- / A-1. The BAA Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are held with counterparties with a credit rating below BBB+ / A.

DIRECTORS' INDEMNITY

The Company's Articles of Association provide that, subject to the provisions of the Companies Act, 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 judgement 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.

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION FOR AUDITORS

The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's financial statements for the year ended 31 December 2009 and that they have taken all the steps that they ought to have taken as directors in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

Pursuant to the provisions of Section 485 of the Companies Act 2006, a resolution relating to the appointment or reappointment of the auditors will be put to the shareholders within the period set out in Section 485

By order of the Board


Carol Hui
Company Secretary

25 March 2010

Company Registration Number 1970855

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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 those financial statements, the directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements 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.

The directors are responsible for the maintenance and integrity of the BAA website, which includes information related to the Company. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Section 418 of the Companies Act 2006, the Directors' Report shall include a statement, in the case of each director in office at the date the report is approved, that

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he 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.

By order of the Board



Carol Hui
Company Secretary

25 March 2010

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BAA AIRPORTS LIMITED**

We have audited the financial statements of BAA Airports Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Shareholder's Funds, the Balance Sheet and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, 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 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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 2009 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 matters 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.

Kenneth Wilson

Kenneth Wilson (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Glasgow

26 March 2010

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Turnover – continuing operations	2	609.1	711.1
Operating costs - ordinary	3	(588.7)	(707.7)
Operating income - exceptional	4	250.8	18.1
Total operating costs		(337.9)	(689.6)
Operating profit – continuing operations		271.2	21.5
Profit on sale of investments in subsidiaries - exceptional	4	-	125.7
Net interest receivable and similar income	6	511.1	502.6
Fair value gain/(loss) on financial instruments	6	42.4	(51.1)
Dividends receivable	7	1.0	1,384.7
Profit on ordinary activities before taxation		825.7	1,983.4
Tax charge on profit on ordinary activities	8	(229.4)	(142.0)
Profit on ordinary activities after taxation	22	596.3	1,841.4

The notes on pages 15 to 40 form an integral part of these financial statements

All profits recognised during the current and prior years are from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Profit for the financial year	22	596.3	1,841.4
Unrealised dividends receivable	7	-	6,229.4
Unrealised revaluation deficit		-	(1,166.2)
Deferred tax credit on items transferred directly to equity ²		112.1	6.9
Current tax (charge)/credit on items transferred directly to equity	21	(0.6)	11.0
Other net recognised (losses) and gains relating to the year.			
Actuarial loss (gross of deferred tax)	17	(404.3)	(59.4)
Other movements	22	(2.1)	(17.1)
Fair value gains/(losses)	21	12.6	(4.2)
Total recognised gains and losses relating to the year		314.0	6,841.8
Prior year adjustment (as explained in Note 1)		(390.0)	
Total gains and losses recognised since last annual report		(76.0)	

¹ During the year ended 31 December 2009, the Company changed its accounting policy for its investment in subsidiary undertakings which has resulted in a prior year adjustment (Note 1)

² This includes a deferred tax credit of £114.3 million (2008: £16.9 million credit) relating to retirement benefit obligations

NOTE OF HISTORICAL COST PROFITS AND LOSSES
For the year ended 31 December 2009

	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Reported profit on ordinary activities before taxation	825.7	1,983.4
<u>Historical cost accounting adjustments</u>		
Unrealised dividends receivable	-	6,229.4
Historical cost profit on ordinary activities before taxation	825.7	8,212.8
Historical cost profit on ordinary activities after taxation	596.3	5,915.6

¹ The presentation of certain balances as at 31 December 2008 has been restated to be consistent with current year classifications. The effects of fair value accounting for derivative financial instruments have been excluded from the reconciliation of the reported profit on ordinary activities before taxation to the equivalent historical cost amount

The notes on pages 15 to 40 form an integral part of these financial statements

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £m	Restated ¹ Year ended 31 December 2008 £m
Profit for the financial year	22	596.3	1,841.4
Unrealised dividends receivable	7	-	6,229.4
Unrealised revaluation deficit		-	(1,166.2)
Deferred tax credit on items transferred directly to equity ²		112.1	6.9
Current tax (charge)/credit on items transferred directly to equity	21	(0.6)	11.0
Other net recognised (losses) and gains relating to the year			
Actuarial loss (gross of deferred tax)	17	(404.3)	(59.4)
Other movements	22	(2.1)	(17.1)
Fair value gains/(losses)	21	12.6	(4.2)
Share-based payments charge	21	6.0	4.9
Dividends paid	9	-	(1,536.1)
Issue of ordinary share capital	19	255.0	-
Net addition to shareholder's funds		575.0	5,310.6
Opening shareholder's funds as previously stated		8,637.3	7,338.7
Prior year adjustment (Note 1)		(390.0)	(4,402.0)
Opening shareholder's funds as restated		8,247.3	2,936.7
Closing shareholder's funds		8,822.3	8,247.3

¹ During the year ended 31 December 2009, the Company changed its accounting policy for its investment in subsidiary undertakings which has resulted in a prior year adjustment (Note 1)

² This includes a deferred tax credit of £114.3 million (2008 £16.9 million credit) relating to retirement benefit obligations

The notes on pages 15 to 40 form an integral part of these financial statements

BALANCE SHEET
As at 31 December 2009

	Notes	31 December 2009 £m	Restated ¹ 31 December 2008 £m
FIXED ASSETS			
Tangible assets	10	5.7	9.4
Investments	11	5,333.3	5,040.1
		5,339.0	5,049.5
CURRENT ASSETS			
Debtors due within one year	12	587.0	430.5
due after more than one year	12	6,550.5	6,208.4
Current asset investments	13	40.3	-
Cash at bank and in hand	14	55.1	78.7
TOTAL CURRENT ASSETS		7,232.9	6,717.6
CREDITORS amounts falling due within one year	15	(585.4)	(593.4)
NET CURRENT ASSETS		6,647.5	6,124.2
TOTAL ASSETS LESS CURRENT LIABILITIES		11,986.5	11,173.7
CREDITORS amounts falling due after more than one year	16	(2,913.5)	(2,954.0)
Provisions for liabilities and charges	18	(65.0)	(25.4)
NET ASSETS (excluding pension (liability)/asset)		9,008.0	8,194.3
Net defined benefit pension (liability)/asset	17	(185.7)	53.0
NET ASSETS		8,822.3	8,247.3
CAPITAL AND RESERVES			
Called up share capital	19	1,357.4	1,102.4
Share premium reserve	20	325.3	325.3
Fair value and other reserves	21	48.4	32.6
Profit and loss reserve	22	7,091.2	6,787.0
TOTAL SHAREHOLDER'S FUNDS		8,822.3	8,247.3

¹ The presentation of certain balances as at 31 December 2008 has been restated to be consistent with current year classifications. In addition, during the year ended 31 December 2009, the Company changed its accounting policy for its investment in subsidiary undertakings, which has resulted in a prior year adjustment (Note 1).

The notes on pages 15 to 40 form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 25 March 2010 and were signed on its behalf by

John Holland-Kaye
Director



José Leo
Director



NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2009****1. ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, with the exception of where noted, are set out below.

Basis of preparation

These financial statements have been prepared under 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 ('UKGAAP'))

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 has adequate resources to continue in operational existence for the foreseeable future.

The directors, having made appropriate enquiries of management, have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirements for the next twelve months from the balance sheet signing date.

Change in accounting policy

During the year, the Company changed its accounting policy for its investments in subsidiary undertakings. The Company previously stated its investments in subsidiary undertakings at consolidated net asset value. The Company now states these investments at cost with reviews for impairment taking place if there are any indications that the carrying value may not be recoverable.

The Company believes that the new policy is more appropriate and provides a more true and fair view of its financial statements given the entity ceased to report the consolidated results of its subsidiary undertakings post reorganisation in 2008. The change brings its policies more closely into alignment with those of the other entities in the wider BAA Group and thereby improving comparability of those financial statements.

The impact of this change in accounting policy on the financial statements is primarily to reduce the net assets and fixed asset investments as at 1 January 2008 by £4,402.0 million and as at 1 January 2009 by £390.0 million. These changes have been reflected as adjustments to the opening balances and have been restated within the financial statements for the year ended 31 December 2009.

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 2009. The results are also included in the consolidated financial statements of BAA Limited for the year ended 31 December 2009 (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 is recognised in accordance with Financial Reporting Standards ('FRS') 5, 'Reporting the substance of transactions' net of VAT, and comprises the recovery of costs from BAA Group entities in accordance with the SSA.

Interest

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Dividends

A dividend is recognised as an asset in the Company's financial statements in the period in which the Company'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 received.

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.

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. Provisions to recognise the BAA Group's liability to fund the BAA Airports Limited defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item. Refer to the accounting policy for details of the Shared Services Agreement.

Tangible fixed assets

(i) Operational assets

Plant, equipment and other assets are stated at cost less accumulated depreciation and impairment losses. Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management and directly attributable overheads.

Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company. The Company reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

(ii) Depreciation

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

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009**1. ACCOUNTING POLICIES (continued)****Tangible fixed assets (continued)****Impairment of assets**

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.

(i) 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. 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.

(ii) Company as a lessee

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Investments in subsidiary undertakings

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

Investments in joint ventures

Investments in joint ventures are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2009****1. ACCOUNTING POLICIES (continued)****Investments**

On initial recognition, financial assets are measured at fair value, or, in the case of investments not at fair value through profit or loss, 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.

Assets classified as 'loans and receivables' are recognised on the balance sheet at their 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 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.

Debtors

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

Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the period-end. Differences arising on translation are charged or credited to the profit and loss account.

Creditors

Creditors are stated at cost less any provision for diminution in value and subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009**1. ACCOUNTING POLICIES (continued)****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.

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 balance sheet 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.

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.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either

- fair value hedges, where they hedge the exposure to changes of a recognised asset or liability, or
- cash flow hedges, where they hedge the exposure to variability in cash flows that are either attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for hedging interest rate risk on borrowings.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised in the profit or loss account over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. The accounting policy also relates to the scenario whereby the forecast transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

Derivatives at fair value through the profit or loss account

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised immediately in the profit and loss account.

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the profit and loss account. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within fair value gain/(loss) on financial instruments 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.

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.

Shared Services Agreement

The Company directly employs the employees of BAA Limited and its subsidiaries (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 administers and sponsors the related defined benefit pension plans and grants all employee benefits.

On 18 August 2008, the Company entered into a Shared Services Agreement ('SSA') under which the Company provides the BAA Group with operational staff and corporate services.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Shared Services Agreement (continued)

(i) Operational staff

The Company charges the BAA Group 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 the employee share options. All of the amounts included in the abovementioned costs are settled in cash except for superannuation costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by the Company.

(ii) 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 where full costs are recharged.

(iii) Pension costs

Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to each of the airports within the BAA Group and Heathrow Express Operating Company Limited ('HEX') on the basis of their pensionable pay base.

Cash contributions are made directly by the BAA Group's airports and HEX to the pension trustee of the BAA Airports Limited defined benefit pension scheme 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 have a legal obligation since August 2008 to fund their share of the BAA Airports Limited pension deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits ('UURBS') (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 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's UK pension fund is a self administered defined benefit scheme. 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 17.

Share-based payment

The Company operates an Executive Share Option Plan ('ESOP') for directors and senior employees of the business. The ESOP is treated as an equity settled scheme in accordance with the grant of the options being made by Ferrovial S.A., the ultimate parent company.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2009****1. ACCOUNTING POLICIES (continued)****Share-based payment (continued)**

The fair value of the employee services received in exchange for the grant of options under the ESOP is recognised as an expense over the vesting period of the options with the corresponding entry recorded in equity. The fair value of the options granted is measured using a binomial model adjusted by taking into account the exercise price, volatility, the term during which the benefits may be exercised, expected dividends, a risk-free interest rate and the expected timing of the exercise.

At each reporting date over the vesting period, the cumulative expense is re-estimated based on the number of options expected to vest with the impact recorded in the profit and loss account and with a corresponding entry in equity.

On exercise of the options by the employees any expense associated with the acquisition of Ferrovial shares by the Company is recorded within equity as a deemed distribution.

The Company has entered into 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 financial income or expense.

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 2009. The results of the Company are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2009 (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.

Significant accounting judgements and estimates

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.

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 country specific 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.

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at the 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 year to year 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 of setting pension scheme assumptions for future periods is to reflect the expected actual outcomes. The impact of the change in assumption 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 17.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Fair value of derivative financial instruments

The fair value of derivative financial instruments is determined by using valuation techniques. The Company uses judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The valuation technique used by the Company is a discounted cash flow methodology.

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. 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.

2. 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 Note 1.

3. OPERATING COSTS - ORDINARY

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Wages and salaries	436.3	529.0
Social security	33.9	7.2
Pensions ¹	32.1	56.8
Other staff related	26.6	18.4
Share-based payments	5.0	3.7
Employment costs²	533.9	615.1
Maintenance expenditure	36.1	37.6
Utility costs	0.5	2.0
Rents and rates	1.6	4.9
General expenses	6.4	34.0
Retail expenditure	9.4	10.5
Intra-group charges/other ³	50.1	45.5
Depreciation - owned assets	3.7	3.1
Embedded derivatives in electricity purchase contracts ⁴	1.5	9.1
Capitalised staff costs ⁵	(54.3)	(54.6)
(Profit)/loss on disposal of tangible fixed assets	(0.2)	0.5
	588.7	707.7

¹ Pension costs include amounts relating to both the Defined Benefit and Defined Contribution schemes operated by the Company.

² Employment costs comprise all BAA Group's employee costs. Refer to SSA accounting policy in Note 1.

³ Intra-group charges/other comprise principally IT, property and shared service costs recharged from other BAA Group companies.

⁴ Refer to Note 6.

⁵ Staff costs incurred in completion of assets are deducted from charges to airports.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

3. OPERATING COSTS - ORDINARY (continued)

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Operating costs include:		
Rentals under operating leases		
- Plant and machinery	0.9	1.3
- Other operating leases	1.5	1.8
Services provided by the Company's auditor		
- Fees payable for the audit	0.4	0.4
- Fees payable for other professional services ¹	-	3.9

¹ Prior year includes professional fees for services provided in relation to permanent refinancing activities

4. EXCEPTIONAL ITEMS

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Operating items:		
Pension credit (a)	258.0	19.3
Reorganisation costs (b)	(3.2)	(1.2)
Other exceptional costs (c)	(4.0)	-
	250.8	18.1
Non-operating income - exceptional		
Profit on sale of investments in subsidiaries (d)	-	125.7

(a) Pension credit

Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the BAA Group's airports. Cash contributions are made directly to the pension trustees of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited. Each airport also has a legal obligation to fund its relevant share of any pension deficit related to BAA Airports Limited pension plans under the SSA. Costs have been allocated to the BAA Group on the basis of pensionable salaries. For the year ended 31 December 2009, exceptional income of £255.6 million was received in relation to the allocation of the BAA Group's share of the deficit in the BAA defined benefit pension scheme. There was also a £2.4 million (2008: £19.3 million) pension credit relating to the charging of accumulated past service pension costs not previously charged to the airports within the BAA Group in relation to Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits. The airports' share of these costs have been allocated on the basis of pensionable salary, under the SSA (Note 1).

(b) Reorganisation costs

During the year ended 31 December 2009, an amount of £3.2 million (Note 18) was charged associated with restructuring programmes (2008: £1.2 million).

(c) Other exceptional costs

During the year ended 31 December 2009, the Company wrote off a loan to the BAA Employee Share Trust of £4.0 million.

(d) Profit on sale of investments

In the prior year, a profit of £125.7 million was recognised on the transfer, at fair value, of the Company's investments in Southampton International Airport Limited, BAA Lynton Limited, to BAA (NDH1) Limited and Heathrow Express Operating Company Limited into the ring-fenced group.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

5. EMPLOYEE INFORMATION

(a) Employee numbers

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 2009 Number	Year ended 31 December 2008 Number
Airports	10,617	11,129
BAA Lynton Management Limited	9	18
Other operations	217	179
	10,843	11,326

(b) Directors' emoluments

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Directors' emoluments		
Aggregate emoluments	765	2,575
Compensation for loss of office	-	3,094
Value of Company pension contributions to defined contribution scheme	42	115
Sums paid to related parties for directors' services	140	900
	947	6,684

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Highest paid director's remuneration		
Total amount of emoluments and amounts (excluding shares) receivable under long term incentive schemes	285	696

Highest paid director's pension		
Defined contribution scheme		
- value of Company pension contributions to defined contribution scheme	-	115

	31 December 2009 Number	31 December 2008 Number
Number of directors who:		
- are members of a defined benefit pension scheme	1	1
- are members of a defined contribution pension scheme	3	1

As a result of the BAA Group reorganisation which took place on refinancing during August 2008, the Board transferred from the Company to BAA Limited. Further details of the directors' emoluments are disclosed in the financial statements of BAA Limited.

M Brown was an Executive Committee member of BAA Limited for the full year, and a director of Heathrow Airport Limited from 31 July 2009. His remuneration was paid by Heathrow Airport Limited and is disclosed in the financial statements of BAA Limited and Heathrow Airport Limited for the relevant periods. E Seng Ang was a director of BAA Limited and G Gauthier was a director of both BAA Limited and FGP Topco Limited during the year. Third party payments are received in relation to these directors and are included in the third party disclosure in FGP Topco Limited's and BAA Limited's financial statements. The directors do not believe it is possible to apportion their remuneration to individual companies within the BAA Group based on services provided.

Three directors (2008: eight) did not receive any emoluments in their capacity as directors of the Company.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

5. EMPLOYEE INFORMATION (continued)

(b) Directors' emoluments (continued)

In accordance with a long term incentive scheme, a cash amount could be awarded to four of the eight directors who held office during 2009 (2008 none), which vests in 2012 contingent on achieving or surpassing EBITDA targets over a three year period. As the financial performance is uncertain at this stage the above emoluments do not contain any value in relation to this award.

No directors (2008 none) exercised any share options during the year, and no shares (2008 none) were received or became receivable under long term incentive plans.

6. NET INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Interest receivable		
Interest receivable from other group undertakings	526.2	619.2
Interest receivable on derivative financial instruments	5.7	85.5
Interest receivable on deposits	1.0	3.3
Interest from available for sale financial assets	1.8	0.5
Interest from other financial instruments	5.9	7.6
	540.6	716.1
Interest payable		
Interest on bank borrowings	(0.5)	(93.2)
Interest on bonds	(2.0)	(178.6)
Interest on borrowings from other group undertakings	(20.7)	(129.2)
Interest payable on derivative financial instruments	(1.5)	(94.6)
Facility fees	(4.8)	(3.1)
	(29.5)	(498.7)
Fair value gain on novation of BAA Limited bonds	-	285.2
Net interest receivable and similar income	511.1	502.6
Fair value gain/(loss) on financial instruments		
	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Embedded derivatives in electricity purchase contracts	(1.5)	(9.1)
Fair value loss in operating profit	(1.5)	(9.1)
Interest rate swaps not in hedge relationships	-	20.0
Equity swap	43.1	(73.9)
Fair value re-measurements of foreign exchange contracts and currency balances	(0.7)	2.8
Fair value gain/(loss) in finance costs	42.4	(51.1)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

7. DIVIDENDS RECEIVABLE

		Year ended 31 December 2009		Year ended 31 December 2008	
		£m	£m	£m	£m
		Realised	Unrealised	Realised	Unrealised
Interim dividends for the year ended 31 December 2009					
BAA Insurance Services Limited – £10 per £1 ordinary share (2008 £3 per £1 ordinary share)	(a)	1.0	-	-	0.3
Scottish Airports Limited – £nil per £1 ordinary share (2008 £37.77 per £1 ordinary share)	(b)	-	-	-	1,507.2
BAA International Limited – £nil per £1 ordinary share (2008 139.68p per £1 ordinary share)	(b)	-	-	-	37.3
London Airports Limited – £nil per £1 ordinary share (2008 406.9p per £1 ordinary share)	(b)	-	-	-	3,746.0
London Airports 1992 Limited – £nil per £1 ordinary share (2008 132.9p per £1 ordinary share)	(b)	-	-	-	938.6
World Duty Free Limited – £nil per £0.023 ordinary share (2008 147.4p per £0.023 ordinary share)	(c)	-	-	647.9	-
Heathrow Express Operating Company Limited – £nil per £1 ordinary share (2008 £17.5 million per £1 ordinary share)	(d)	-	-	35.0	-
BAA DSH Limited – £nil per £1 ordinary share (2008 27.97p per £1 ordinary share)	(e)	-	-	701.8	-
		1.0	-	1,384.7	6,229.4

- (a) Annual trading dividend received from BAA Insurance Services Limited
- (b) In the prior year, as part of the wider BAA Group refinancing, dividends were received representing the subsidiary entity's profit on the transfer of subsidiaries at fair value
- (c) In the prior year these dividends were paid by the subsidiary following the external sale of these subsidiary's investments.
- (d) In the prior year this dividend was paid by the subsidiary prior to its transfer to Heathrow Airport Limited, at fair value
- (e) In the prior year surplus cash was paid up the BAA Group on refinancing to allow BAA Limited to repay external debt

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Current tax		
Group relief payable	131.6	154.7
Adjustments in respect of prior periods	0.8	9.9
Total current tax	132.4	164.6
Deferred tax		
Origination and reversal of timing differences – non pension	24.5	(26.3)
Origination and reversal of timing differences – pension	72.5	3.7
Total deferred tax	97.0	(22.6)
Tax charge on profit on ordinary activities	229.4	142.0

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2008 28.5%). 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 2009 £m	Year ended 31 December 2008 £m
Profit on ordinary activities before tax	825.7	1,983.4
Tax on profit on ordinary activities at 28% (2008 28.5%)	231.2	565.3
Effect of		
Permanent differences	5.3	10.1
Non-taxable income	(10.6)	(431.3)
Temporary timing differences	(94.3)	10.6
Adjustments to tax charge in respect of prior periods	0.8	9.9
Current tax charge for the year	132.4	164.6

There are no items which would materially affect the future tax charge

9. DIVIDENDS PAID

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Equity - Ordinary		
No ordinary dividend was paid in the year (2008 139.34p per share)	-	1,536.1

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

10. TANGIBLE ASSETS

	Plant, equipment & other assets £m	Assets in the course of construction £m	Total £m
Cost			
At 1 January 2009	29.9	1.9	31.8
Additions at cost	0.6	-	0.6
Inter-company transfer	(0.3)	-	(0.3)
Disposals	(4.1)	-	(4.1)
At 31 December 2009	26.1	1.9	28.0
Depreciation			
At 1 January 2009	(22.4)	-	(22.4)
Charge for the year	(3.7)	-	(3.7)
Inter-company transfer	0.3	-	0.3
Disposals	3.5	-	3.5
At 31 December 2009	(22.3)	-	(22.3)
Net book value			
31 December 2009	3.8	1.9	5.7
31 December 2008	7.5	1.9	9.4

11. INVESTMENTS

	Subsidiaries £m	Joint ventures £m	Available for sale investments £m	Total £m
Cost				
At 1 January 2009 as previously stated	5,410.8	1.9	22.8	5,435.5
Prior year adjustment (Note 1)	(390.0)	-	-	(390.0)
At 1 January 2009 as restated	5,020.8	1.9	22.8	5,045.5
Additions	282.6	-	-	282.6
At 31 December 2009	5,303.4	1.9	22.8	5,328.1
Revaluation				
At 1 January 2009	-	-	(5.4)	(5.4)
Revaluation	-	-	10.6	10.6
At 31 December 2009	-	-	5.2	5.2
Net book value				
31 December 2009	5,303.4	1.9	28.0	5,333.3
31 December 2008 (as restated)	5,020.8	1.9	17.4	5,040.1

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

11. INVESTMENTS (continued)

Subsidiaries

The Company acquired an additional 282,629,685 ordinary £1 shares of BAA (DSH) Limited in the year at a price of £1 per share

The principal subsidiaries whose financial position materially affect BAA Airports Limited are as follows

Holding companies

BAA (AH) Limited †	BAA (SP) Limited †
BAA (SH) Limited †	BAA (DSH) Limited

Airport Owners and Operators

Heathrow Airport Limited†
 Stansted Airport Limited†
 Società Gestione Servizi Aeroporti Campani S p A †* (65% holding)

Other entities

BAA Enterprises Limited
 Airport Property Partnership†
 BAA Funding Limited †#

† Held by a subsidiary undertaking

* Incorporated in Italy

Incorporated in Jersey

Available for sale investments

Available for sale investments include £28.0 million (2008: £17.4 million) in respect of a 4.19% equity interest in National Air Traffic Services Group ('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 2032. A rate of 10.0% (2008: 8.0%) 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 20 of FGP Topco Limited financial statements for the year ended 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

12. DEBTORS

	31 December 2009 £m	31 December 2008 £m
Due within one year:		
Trade and other receivables	19.3	23.4
Amounts owed by group undertakings (a)	42.5	217.7
Interest receivable from parent undertaking (b)	251.1	187.7
Amounts owed by group undertakings - pensions (c)	274.1	-
Derivative financial instruments	-	1.7
	587.0	430.5
Due after more than one year:		
Derivative financial instruments (d)	10.3	-
Amounts owed by the parent undertaking (e)	6,481.2	6,115.6
Deferred tax asset (Note 18)	-	40.3
Other receivables (f)	59.0	52.5
	6,550.5	6,208.4
Total debtors	7,137.5	6,638.9

(a) Amounts owed by group undertakings

These are amounts due from other subsidiary undertakings of the Company 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.

(b) Interest receivable from parent undertaking

This relates to interest payable by the parent entity (BAA Airports Holdco Limited) on the £6,481.2 million loan due after more than one year.

(c) Amounts owed by group undertakings - pension

This balance represents amounts due to the Company in respect of the allocation of the deficits on the BAA defined benefit pension scheme and the Unfunded Retirement Benefit and Post Retirement Medical Benefits scheme to the BAA Group's airports.

(d) Derivative financial instruments

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 £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 £69.9 million as at 31 December 2009 (2008: 2.9 million shares with mark to market liability of £117.1 million).

(e) Amounts owed by the parent undertaking

Amounts owed by the parent undertaking relates to BAA Airports Holdco Limited. This amount accrues interest at 8.24% at 31 December 2009 and is repayable on demand, however, as there is no intention of the Company to do so, it is classified as non-current.

(f) Other receivables

Non-current other receivables represents £59.0 million (2008: £52.5 million) in connection with loan notes due in 2011 which were received from Caisse de Depot et Placement du Quebec from the disposal of Budapest Airport.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

13. CURRENT ASSET INVESTMENTS

	31 December 2009 £m	31 December 2008 £m
Short term deposits	40.3	-

Short term deposits held at 31 December 2009 totalled £40.3 million (2008: £nil) and attracted floating interest rates ranging from 0.4% to 0.47%. 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 £20.3 million and A-1 held assets of £20.0 million as at 31 December 2009.

14. CASH AT BANK AND IN HAND

	31 December 2009 £m	31 December 2008 £m
Cash at bank and in hand	55.1	0.3
Money market funds	-	78.4
	55.1	78.7

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.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Trade creditors	66.5	36.4
Amounts owed to group undertakings (a)	218.3	215.4
Amounts owed to group undertakings - pension (b)	40.4	-
Corporation tax payable	111.0	98.2
Group relief payable (c)	126.1	154.7
Other tax and social security	1.9	1.0
Capital creditors	0.1	0.2
Dividends payable	3.7	3.7
Other payables	17.4	83.8
Creditors amounts falling due within one year	585.4	593.4

¹ The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.

(a) Amounts owed to group undertakings

Amounts owed to group undertakings include balances totalling £158.8 million (2008: £144.6 million) due to group undertakings 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 £59.5 million (2008: £70.8 million) due to group undertakings which are interest free and are settled on a monthly basis.

(b) Amounts owed to group undertakings - pensions

The balance of £40.4 million (2008: £nil) represents cash contributions made directly by the BAA Group's airports and HEX to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of the Company.

(c) Group relief payable

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2009 £m	Restated ¹ 31 December 2008 £m
Amounts owed to group undertakings (a)	2,831.1	2,836.2
Derivative financial instruments (b)	80.2	117.1
Other payables	2.2	0.7
Creditors amounts falling due after more than one year	2,913.5	2,954.0

¹ The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures

(a) Amounts owed to group undertakings

Amounts owed to group undertakings include balances totalling £2,748.5 million (2008 £2,802.8 million) due to group undertakings which accrue interest at 1.5% over Bank of England base rate. In addition, there are balances of accrued interest of £82.6 million (2008 £33.4 million) relating to these group balances. There are no fixed terms for repayment for the total amounts owed to group undertakings, however, management do not expect these amounts to be called upon within 12 months from 31 December 2009, resulting in their classification as non-current.

(b) Derivative financial instruments

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 £69.9 million as at 31 December 2009 (2008 2.9 million shares with mark to market liability of £117.1 million). The £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.

17. RETIREMENT BENEFIT OBLIGATIONS

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
BAA Pension Scheme ¹	44	56
Defined contribution schemes	2	1
Additional provision for unfunded pensions	1	2
Total operating charge to staff costs	47	59

¹ Included in BAA 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.

	31 December 2009 £m	31 December 2008 £m
BAA Pension Scheme	(256)	95
Unfunded pension obligation	(17)	(15)
Post-retirement medical benefits	(4)	(5)
(Liability)/asset at end of year	(277)	75
Related deferred tax asset/(liability) ¹	91	(22)
(Liability)/asset recognised in the balance sheet	(186)	53

¹ This comprises a deferred tax asset of £85 million (2008 deferred tax liability £27 million) relating to the BAA Pension Scheme and a deferred tax asset of £6 million (2008 £5 million) relating to the unfunded pension obligation and post retirement medical benefits.

The Company operates one main 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 is 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 a Trustee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

The value placed on the liabilities of the Scheme as at 31 December 2009 is based on the initial results of detailed calculations as at 30 September 2009 adjusted to reflect the expected bulk transfer in respect of the sale of Gatwick and with reference to the result of the formal valuation as at 30 September 2008. The value placed on the liabilities of the Scheme as at 31 December 2008 is based on the results of the actuarial valuation undertaken at 30 September 2008. The liabilities have been updated by Mercer Limited, 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 2009 (adjusted to reflect the expected bulk transfer payment in respect of the sale of Gatwick) and bid value at 31 December 2008. The Company's accounting policy is to recognise actuarial gains and losses as they occur in the statement of total recognised gains and losses.

(a) BAA Pension Scheme

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

	31 December 2009 %	31 December 2008 %
Rate of increase in pensionable salaries	5.2	4.4
Increase to deferred benefits during deferment	3.7	2.9
Increase to pensions in payment		
Open section	3.6	2.8
Closed section	3.7	2.9
Discount rate	5.7	6.0
Inflation assumption	3.7	2.9
Expected return on plan assets		
- Equities	8.2	7.6
- Bonds	5.5	6.4
- Other	0.5	2.0

The assumptions relating to longevity underlying the pensions 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 24.8 years and 25.9 years from age 60 for a 40 year old male non-pensioner. The assumptions are the same as those used at 31 December 2008.

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 assumption. A rate of inflation is "implied" by the difference between the yield on fixed and index-linked government bonds.

To develop the expected long term rate of return on asset 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 yield 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 expectation.

NOTES TO THE FINANCIAL STATEMENTS

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17. 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 6.6% assumption (2008: 6.9%).

The amounts charged to operating profit are as follows

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Current service cost	54	67
Finance cost on benefit obligations	120	124
Expected return on plan assets	(145)	(143)
Curtailment gain	(25)	-
Settlement loss	25	-
Past service cost - routine items	2	1
Past service cost - exceptional items	13	7
Total operating charge to staff costs	44	56

Statement of total recognised gains and losses

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Actual return less expected return on plan assets	(71)	(343)
Experience gains and losses arising on the benefit obligations	67	28
Changes in assumptions underlying the present value of the benefit obligation	(400)	256
Actuarial loss recognised in the statement of recognised gains and losses	(404)	(59)

The actual return on plan assets was £74 million (2008: loss of £205 million)

Cumulative amount of actuarial losses immediately recognised, £624 million (2008: £220 million)

The principal elements of the actuarial loss of £404 million for the year ended 31 December 2009 has resulted from

- a reduction in the financial assumptions for valuing the expected return on plan assets, equities rate increased to 8.2% (2008: 7.6%), bonds rate reduced to 5.5% (2008: 6.4%) and a reduction in other rates to 0.5% (2008: 2.0%), contributing in total £71 million to the expected return on plan assets
- a reduction in the discount rate assumption to 5.7% (2008: 6.0%) increasing the present value of the defined benefit obligation by £110 million
- an increase in the inflation rate assumption to 3.7% (2008: 2.9%) increasing the present value of the defined benefit obligation by £290 million

The target asset allocation is 40:60 equity to bonds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

The amounts recognised in the balance sheet are determined as follows

	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 March 2006 £m
Fair value of plan assets					
Equities	635	946	1,119	1,514	1,484
Bonds	1,131	1,113	1,062	573	569
Other	263	23	92	38	19
Total market value of plan assets	2,029	2,082	2,273	2,125	2,072
Present value of scheme liabilities	(2,285)	(1,987)	(2,123)	(2,332)	(2,196)
Gross (deficit)/surplus in scheme at end of period	(256)	95	150	(207)	(124)
Related deferred tax asset/(liability)	85	(27)	(42)	62	37
(Deficit)/surplus recognised in the balance sheet	(171)	68	108	(145)	(87)

Analysis of movement in the benefit obligation

	31 December 2009 £m	31 December 2008 £m
Benefit obligations at beginning of the year	1,987	2,123
Movement in the year		
Current service cost	54	67
Finance cost	120	124
Members' contributions	15	16
Past service cost - routine items	2	1
Past service cost - exceptional items	13	7
Actuarial loss/(gain)	333	(280)
Curtailment gain	(25)	-
Transferred liabilities of Gatwick	(128)	-
Benefits paid (by fund)	(86)	(71)
Benefit obligations at end of year	2,285	1,987

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 therefore expects to contribute £80 million to its pension plan in the year ending 31 December 2010.

Analysis of defined benefit obligations

	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 March 2006 £m
Plans that are wholly or partly funded	(2,285)	(1,987)	(2,123)	(2,332)	(2,196)
Plans that are wholly unfunded	(21)	(20)	(22)	(21)	(24)
Total	(2,306)	(2,007)	(2,145)	(2,353)	(2,220)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

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

	31 December 2009 £m	31 December 2008 £m
Fair value of plan assets at the beginning of year	2,082	2,273
Expected return on plan assets	145	143
Actuarial loss	(71)	(349)
Employer contributions (including benefits paid and reimbursed)	97	70
Members' contributions	15	16
Bulk transferred assets for Gatwick	(153)	-
Benefits paid (by fund)	(86)	(71)
Fair value of plan assets at end of year	2,029	2,082

History of experience gains and losses

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	9 months ended 31 December 2006	Year ended 31 March 2006
Difference between the expected and actual return on scheme assets					
Amount £m	(71)	(343)	(4)	(57)	274
Percentage of scheme assets	(3.5)	(16.5)	(0.2)	(2.7)	13.2
Experience gains and losses on benefits obligations					
Amount £m	67	28	130	(8)	14
Percentage of scheme liabilities	2.9	1.4	6.1	(0.3)	0.6
Amount recognised in the statement of total recognised gains and losses:					
Amount £m	(404)	(59)	375	(58)	72
Percentage of scheme liabilities	(17.7)	(3.0)	17.7	(2.5)	3.3

(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 total cost of defined contribution arrangements fully expensed against operating profit in the year is £2 million (2008: £1 million).

The Company provides unfunded pensions in respect of directors and 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 (2008: £2 million). The Company also provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement of £4 million (2008: £5 million) is included in the statement of financial position, along with provision for unfunded pension obligations of £17 million (2008: £15 million). The value of these unfunded pension and post retirement medical benefits exclude the associated deferred tax asset of £6 million (2008: £5 million). The value of the unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax (a) £m	Reorganisation costs (b) £m	Total £m
At 1 January 2009	-	25.4	25.4
Reclassification of deferred tax asset (Note 12)	(40.3)	-	(40.3)
Charged to profit and loss account	96.1	3.2 ¹	99.3
Utilised in the year	-	(21.6)	(21.6)
Charged to equity	2.2	-	2.2
At 31 December 2009	58.0	7.0	65.0

¹ Refer to Note 4

(a) Deferred tax

Analysis of the deferred tax balances, which represents full provision, are as follows

	31 December 2009 £m	31 December 2008 £m
Excess of depreciation over capital allowances	(4.1)	(4.0)
Other short term timing differences	72.3	(12.6)
Financial instruments	(10.2)	(23.7)
	58.0	(40.3)

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

(b) Reorganisation costs

Costs associated with the Company's reorganisation programmes are for severance and pension payments only. All amounts are expected to be utilised in the year ended 31 December 2010.

19. CALLED UP SHARE CAPITAL

	£
Authorised	
At 1 January 2009	
1,300,000,000 ordinary shares of £1 each	1,300,000,000
Increase of 255,000,000 ordinary shares of £1 each	255,000,000
At 31 December 2009:	
1,555,000,000 ordinary shares of £1 each	1,555,000,000
Called up, allotted and fully paid	
At 1 January 2009	
1,102,400,315 ordinary shares of £1 each	1,102,400,315
Issue of 255,000,000 ordinary shares of £1 each	255,000,000
At 31 December 2009:	
1,357,400,315 ordinary shares of £1 each	1,357,400,315

On 13 November 2009, the authorised share capital was increased by £255,000,000 by the creation of 255,000,000 ordinary shares of £1 each. On the same day, the issued share capital was increased by the same amount as a result of the issue of 255,000,000 ordinary shares of £1 each. The issue proceeds, together with an additional £27.6 million was used to acquire 28,269,685 shares of BAA (DSH) Limited, the intermediate parent company of BAA (SP) Limited, as part of the £500 million equity injection into the BAA (SP) Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

20. SHARE PREMIUM RESERVE

	£m
At 1 January 2009 and 31 December 2009	325.3

21. FAIR VALUE AND OTHER RESERVES

	Equity option reserve £m	Fair value reserve £m	Available for sale investments £m	Capital redemption reserve £m	Total £m
At 1 January 2009	-	(0.4)	6.1	26.9	32.6
Fair value gains	-	2.0	10.6	-	12.6
Share-based payment charge	6.0	-	-	-	6.0
Current tax on fair value gains	-	(0.6)	-	-	(0.6)
Deferred tax on fair value gains	-	-	(2.2)	-	(2.2)
At 31 December 2009	6.0	1.0	14.5	26.9	48.4

22. PROFIT AND LOSS RESERVE

	£m
At 1 January 2009 as previously stated	7,177.0
Prior year adjustment (Note 1)	(390.0)
At 1 January 2009 as restated	6,787.0
Profit for the financial year	596.3
Actuarial loss on pensions net of deferred tax	(290.0)
Other movements	(2.1)
At 31 December 2009	7,091.2

23. COMMITMENTS

Commitments under operating leases

At 31 December 2009, the Company was committed to making the following payments during the next year in respect of operating leases

	Land & buildings 31 December 2009 £m	Other leases 31 December 2009 £m	Land & buildings 31 December 2008 £m	Other leases 31 December 2008 £m
Leases which expire				
- within one year	0.1	0.2	0.3	0.2
- within two to five years	0.1	0.1	0.6	0.4
	0.2	0.3	0.9	0.6

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. 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 £56.4 million at 31 December 2009 (2008: £112.0 million).

The Company has provided a guarantee to the Deutsche Trustee Company Limited (the Bond Trustee) for itself and on behalf of the BAA Guaranteed Bondholders in respect of bonds with a final legal maturity of no later than 2018 issued by BAA Funding Limited.

25. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking 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%) (as successor to Lernamara S.L. and Ferrovial Infraestructuras S.A.), Britannia Airport Partners L.P. (26.5%) (a Caisse de dépôt et placement du Québec-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 2009, 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 2009.

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

26. POST BALANCE SHEET EVENT

In January 2010, the Company issued 210,000,000 ordinary shares with nominal value of £1.00 each to BAA Airports Holdco Limited. The issue proceeds, together with an additional £7.4 million, were used to purchase an additional 217,370,315 ordinary shares in BAA (DSH) Limited. This sequence of events completed a £500 million equity injection into the BAA (SP) Group announced in November 2009.