BAA (AH) Limited
Annual report and financial statements
for the year ended 31 December 2010

Company registration number: 06458657

BAA (AH) Limited

Contents

BAA (AH) Limited

Officers and professional advisers

Directors
José Leo
Frederick Maroudas

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The Compass Centre
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Hounslow
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Independent auditors
Deloitte LLP
Chartered Accountants and Statutory Auditors
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The Royal Bank of Scotland plc
135 Bishopsgate
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Directors' report

The Directors present their annual report and the audited financial statements for BAA (AH) Limited (the ‘Company’) for the year ended 31 December 2010.

Principal activities
The principal activity of the Company is to act as the immediate holding company of Heathrow Airport Limited (‘Heathrow’) and Stansted Airport Limited (‘Stansted’) responsible for operating the Heathrow and Stansted airports respectively. The Company acts as an indirect holding company of Heathrow Express Operating Company Limited, which together with the Company and its parent entity BAA (SP) Limited form the ring-fenced group (the ‘SP Group’) which is able to raise investment grade finance and further forms part of the BAA Limited Group (the 'BAA Group').

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

Results and dividends
The loss after taxation for the financial year amounted to £40.7 million (2009: loss of £1,097.9 million). An ordinary dividend of £0.009 per share was paid during the year amounting to £63.3 million (2009: interim dividend of £0.008 per share amounting to £572.6 million). The statutory results for the year are set out on page 10.

Review of business and future developments
Key events and future developments occurring during the year are detailed below.

The SP Group’s capital structure was enhanced by the completion in January 2010 of the final £217.4 million tranche of a £500 million equity injection announced in November 2009.

As a result of the equity injection, on 28 January 2010, the Company issued 217,370,315 ordinary shares to BAA (SP) Limited with a nominal value of £0.0015 each and at a premium of £0.9985 per ordinary share. On the same day the proceeds were utilised by the Company to purchase 217,370,315 ordinary shares issued by its subsidiary Heathrow completing the £500 million equity injection into the SP Group which had been previously announced. The remaining increase of £88.5 million in investments in subsidiaries relates to the commutation payment made to BAA Airports Limited defined benefit pension scheme following the disposal of Gatwick Airport Limited (‘Gatwick’).

During 2010, the Company completed the last steps of Gatwick disposal receiving an additional £1.4 million on the finalisation of Gatwick’s balance sheet at completion, making a payment of £104.7 million to the BAA Group’s pension scheme and booking a £14.6 million gain on disposal reflecting the shortfall between assets and liabilities transferred to the pension scheme of Gatwick’s purchaser being lower than expected.

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

Regulatory developments
Competition Commission inquiry into the supply of UK airport services by 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 key structural remedy called for the disposal of certain airports including Stansted airport.

The CC’s decision was initially overturned by the Competition Appeals Tribunal but was upheld by the Court of Appeal in October 2010 and, in February 2011, BAA was refused permission to appeal to the Supreme Court. BAA is disappointed by this decision and continues to make the case to the CC that the circumstances in which they found reason to force the sale of certain of its airports have changed significantly since early 2009.

Following the Court of Appeal decision, interim undertakings relating to the governance and monitoring of Stansted airport have been reinstated and the CC is considering responses to a consultation as to whether there have been material changes in circumstances that might lead to it amending the scope of the remedies requiring that BAA divest Stansted airport contained in its final decision in March 2009. The CC has indicated that it expects to issue its provisional decision on its consultation during March 2011.

Review of business and future developments *continued*
Regulatory developments continued
Airport economic regulation review and potential extension of Heathrow's current regulatory period
The new UK government confirmed its approach to reforming the economic regulation of airports that built on proposals published by the Department for Transport in December 2009. It provides clarity on the package of measures to be included in the proposed new Airport Economic Regulation bill (the 'Bill') to promote both the interests of passengers and investment in the UK's airports. The measures, which were announced in July 2010, will provide important reassurance for the BAA Group's debt investors. They include:

- a primary duty for the Civil Aviation Authority ('CAA') to promote the interests of passengers. It will also have a supplementary duty to ensure that licence holders are able to finance their activities;
- a minimum credit worthiness requirement for licensed airports;
- ring fencing provisions similar to those in place in other regulated sectors but with initial derogations from some of the provisions (including restrictions on the granting of security to lenders) where the costs of introduction would exceed their benefits;
- a requirement on the CAA to apply agreed tests when considering the removal of an airport's derogations and an appeals process that is aligned with the wider licence modification process; and
- a requirement for airports to put in place continuity of service plans.

The government also confirmed the earlier decision not to bring in a special administration regime and that it will not change the basis on which the current price caps at Heathrow and Stansted airports are set.

In February 2011, the CAA launched a consultation on the potential extension of Heathrow airport's current regulatory period by one year to 31 March 2014. This reflects the fact that the Bill is unlikely to be introduced into parliament before the 2012 session and the CAA's desire that the Bill is enacted prior to determining the terms for the next regulatory period. The consultation is due to conclude in March 2011.

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

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

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

Developments since beginning of 2011
In the first two months of 2011, the combined passenger traffic at Heathrow and Stansted airports increased 0.8% to 12 million (2010: 11.9 million) due partly to underlying growth and partly to more favourably weather conditions than those that impacted performance in January 2010 at Heathrow airport in particular.

Directors
The Directors who served during the year are as follows:

José Leo
Frederick Maroudas

Company secretary
Pursuant to section 270 of the Companies Act 2006, a private company registered within England or Wales is not required to have a company secretary. The Company availed itself of this exemption and consequently on 31 August 2010 Shu Mei Ooi resigned.

Employment policies
The Company has no employees.

Directors' report *continued*

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

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

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

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

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

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

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

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

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

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

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

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

Directors' report *continued*

Risk management *continued*
Regulatory environment, legal and other 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 BAA Group, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of the BAA Group breaching these regulations. Refer to the Review of business and future developments section for details on the Competition Commission's inquiry into the supply of UK airport services by BAA and the Airport economic regulation review and potential extension of Heathrow's current regulatory period.

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

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

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

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

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

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

Industrial relations
The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the BAA Group is recognised. The BAA Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. In March 2011, the BAA Group concluded negotiations with the Trade Unions regarding employees' pay through to the end of 2013. The BAA Group could also be exposed in the short-term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers and baggage handlers.

Directors' report *continued*

Risk management *continued*

Commercial and financial risk management objectives and polices continued

Treasury

The Company's financial risk management objectives are aligned with BAA Limited, and also with BAA (SP) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements and the level at which financial risks for the Company are managed. The treasury policies of the SP Group are set out below.

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

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

The primary treasury related financial risks faced by the SP Group are:

a) Interest rates

The SP Group maintains a mix of fixed and floating rate debt. As at 31 December 2010, fixed rate debt after hedging with derivatives represented 79% of the SP Group's total external nominal debt.

The SP 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 use of inflation linked instruments.

b) Foreign currency

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

c) Funding and liquidity

The SP Group has established an investment grade financing platform for its airports. This platform supports bank term debt, bank revolving credit facilities including a revolving capital expenditure facility, bank liquidity facilities, and sterling and foreign currency capital markets issuance. All debt is secured and can be issued in either senior (A-/A-) or junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an on-going 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 SP Group is not exposed to excessive refinancing risk in any one year.

The SP Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under the revolving capital expenditure facility. As at 31 December 2010, SP Group's cash and current assets investments were £47.1 million, undrawn headroom under the bank credit facilities was £1,450.0 million and undrawn headroom under the bank liquidity facilities was £524.5 million.

d) Counterparty credit

The SP 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 SP Group maintains a prudent split of cash and current assets investments 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 current assets investments are placed with counterparties with credit ratings lower than A-2/F1. The SP Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with credit ratings below BBB+/A.

Directors' report *continued*

Director's indemnity

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which 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.

Auditors

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

Statement of disclosure of information to the Auditors

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

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

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

On behalf of the Board

José Leo
Director

16 March 2011

Company registration number: 06458657

Directors' responsibilities statement

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

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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.

On behalf of the Board

Jose Leo
Director

16 March 2011

Independent auditors' report to the members of BAA (AH) Limited

We have audited the financial statements of BAA (AH) Limited for the year ended 31 December 2010 which comprise the Profit and loss account, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss 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.

A J Kelly

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

16 March 2011

BAA (AH) Limited

Profit and loss account for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
Operating costs - exceptional	*2*	**(60.0)**	(864.0)
Operating loss		**(60.0)**	(864.0)
Dividends received	*3*	**-**	85.5
Net interest receivable and similar income	*5*	**4.2**	1.5
Exceptional gain/(loss) on disposal of investment	*4*	**16.0**	(320.8)
Loss on ordinary activities before taxation		**(39.8)**	(1,097.8)
Tax charge on loss on ordinary activities	*6*	**(0.9)**	(0.1)
Loss on ordinary activities after taxation	*13*	**(40.7)**	(1,097.9)

All losses recognised during the current and prior year are from continuing operations.

There are no recognised gains or losses for the current or preceding financial years other than stated in the Profit and loss account and accordingly no statement of recognised gains and losses is presented.

BAA (AH) Limited

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

	Note	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Loss for the financial year	*13*	**(40.7)**	(1,097.9)
Dividends paid	*13*	**(63.3)**	(572.6)
Capital distribution	*13*	**(16.2)**	-
Issue of ordinary share capital and related share premium	*12,13*	**217.4**	282.6
Net movement in shareholder's funds		**97.2**	(1,387.9)
Opening shareholder's funds		**5,016.6**	6,404.5
Closing shareholder's funds		**5,113.8**	5,016.6

BAA (AH) Limited

Balance sheet as at 31 December 2010

	Note	31 December 2010 £m	31 December 2009 £m
Fixed assets			
Investments in subsidiaries	*7*	**5,110.3**	4,864.4
Total fixed assets		**5,110.3**	4,864.4
Current assets			
Debtors	*8*	**20.5**	62.0
Restricted cash	*9*	**-**	143.0
Cash at bank and in hand		**-**	1.1
Total current assets		**20.5**	206.1
Current liabilities			
Creditors: amounts falling due within one year	*10*	**(2.0)**	(19.1)
Net current assets		**18.5**	187.0
Total assets less current liabilities		**5,128.8**	5,051.4
Provisions for liabilities and charges	*11*	**(15.0)**	(34.8)
Net assets		**5,113.8**	5,016.6
Capital and reserves			
Called up share capital	*12*	**11.1**	10.7
Share premium reserve	*13*	**499.2**	282.2
Profit and loss reserve	*13*	**4,603.5**	4,723.7
Total shareholder's funds		**5,113.8**	5,016.6

The financial statements of BAA (AH) Limited (Company registration number: 06458657) were approved by the Board of Directors and authorised for issue on 16 March 2011. They were signed on its behalf by:

José Leo
Director

Frederick Maroudas
Director

Accounting policies for the year ended 31 December 2010

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

Basis of preparation
These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Consequently the Directors have reviewed the cash flow projections of the SP Group taking into account:
- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall SP Group liquidity position, including the projected upstream of cash, remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets.

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

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 its subsidiary undertakings are included in the consolidated financial statements of that company for the year ended 31 December 2010. The results are also included in the consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2010 (immediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of BAA (SH) plc (formerly BAA (SH) Limited) and BAA Limited for the year ended 31 December 2010. 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.

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

Exceptional items
The Company presents, on the face of the profit and loss account, disclosure of exceptional items. Exceptional items are material items of income or 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. Details of exceptional items are provided as and when required as set out in Notes 2 and 4.

Investments in subsidiaries
Investments in subsidiaries 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.

Dividends receivable
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. Interim dividends are recognised when received.

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

Cash
Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right of offset exists.

Restricted cash
Cash that can only be used for a specific purpose or where access is restricted is classified as restricted cash.

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

Accounting policies for the year ended 31 December 2010 *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 reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

In accordance with Financial Reporting Standard ('FRS') 19, 'Deferred Tax', deferred tax is provided in full on timing differences which result in an obligation at the reporting 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 assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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

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

Dividend distribution
A dividend distribution to the Company's shareholders 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.

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2010. The results are also included in the audited consolidated financial statements of BAA (SP) Limited for the year ended 31 December 2010 (immediate parent entity and the smallest group to consolidate these financial statements). They are also included in the audited consolidated financial statements of BAA (SH) plc and BAA Limited for the year ended 31 December 2010. 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 for the year ended 31 December 2010

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

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

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

1 Operating costs - ordinary

Auditors' remuneration
Audit fees for the current and preceding financial years were borne by BAA Airports Limited.

Employee information
The Company has no employees (2009: nil).

Directors' remuneration
José Leo was a director of a number of companies within the BAA Limited Group (the 'BAA Group'), including BAA Airports Limited, during the year. His remuneration was paid by BAA Airports Limited. Frederick Maroudas was a director of a number of companies within the BAA Group. He was paid by, but is not a director of, BAA Airports Limited. The Directors do not believe it is possible to accurately apportion their remuneration to individual companies within the BAA Group based on services provided.

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

During the year, none of the directors (2009: none) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2009: one) had retirement benefits accruing to them under a defined contribution scheme.

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

2 Operating costs - exceptional

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Impairment of investment	**60.0**	864.0

The exceptional item relates to an impairment charge of £60.0 million (2009: £864.0 million) resulting from the Directors' review of the carrying value of the investment in the subsidiary undertakings (Note 7).

3 Dividends received

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Dividends receivable from subsidiary undertaking	**-**	85.5

4 Exceptional gain/(loss) on disposal of investment

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Proceeds received on sale of investment	**1.4**	773.1
Promissory notes	**-**	(85.5)
Cost of investment disposed of (net of impairment)	**-**	(935.2)
Disposal gain/(costs)	**14.6**	(73.2)
	16.0	(320.8)

In 2009, the exceptional loss on disposal of investment represents the Company's loss on the disposal of its investment in the ordinary shares of Gatwick Airport Limited ('Gatwick').

The £16.0 million gain on disposal in 2010 reflects the shortfall between assets and liabilities transferred to the pension scheme of Gatwick's purchaser being lower than expected giving rise to the release of a provision for this expense recorded in 2009, and the receipt of a further £1.4 million on the finalisation of Gatwick's balance sheet at completion of the disposal.

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

5 Net interest receivable and similar income

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Interest receivable		
Interest receivable from other group undertakings	**2.7**	0.3
Interest receivable on bank deposits	**0.5**	-
Dividend receivable on irredeemable preference shares of £0.01: 4.751p per share from Heathrow Airport Limited (2009: 9.564p per share)	**1.0**	1.7
	4.2	2.0
Interest payable to other group undertakings	**-**	(0.5)
Net interest receivable and similar income	**4.2**	1.5

6 Tax on loss on ordinary activities

	Year end 31 December 2010 £m	Year ended 31 December 2009 £m
Current tax		
Group relief payable	**0.9**	-
Adjustments in respect of prior periods	**-**	0.1
Tax charge on loss on ordinary activities	**0.9**	0.1

Reconciliation of tax charge

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

	Year end 31 December 2010 £m	Year ended 31 December 2009 £m
Loss on ordinary activities before tax	**(39.8)**	(1,097.8)
Tax on loss on ordinary activities at 28% (2009: 28%)	**(11.1)**	(307.4)
Effect of:		
Permanent differences	**12.3**	331.8
Non taxable income	**(0.3)**	(24.4)
Adjustments to tax charge in respect of prior periods	**-**	0.1
Current tax charge for the year	**0.9**	0.1

The standard rate of corporation tax in the UK will change to 27% with effect from 1 April 2011. Other than this change there are no items which would materially affect the future tax charge.

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

7 Investments in subsidiaries

	£m
Cost	
1 January 2010	5,702.4
Additions: purchase of shares[1]	217.4
: commutation payment[2]	88.5
31 December 2010	**6,008.3**
Impairment	
1 January 2010	(838.0)
Charged to profit and loss account[3]	(60.0)
31 December 2010	**(898.0)**
Net book value 31 December 2010	**5,110.3**
Net book value 31 December 2009	4,864.4

1 On 28 January 2010, the Company purchased 217,370,315 ordinary shares of £1 each in its subsidiary Heathrow Airport Limited ('Heathrow').
2 In June 2010, the Company made a commutation payment to BAA Airports Limited defined benefit pension scheme following the disposal of Gatwick. As a result of this payment, the benefit was proportionally allocated to Heathrow, Stansted Airport Limited and Heathrow Express Operating Company Limited. The benefits received by these subsidiaries are shown as an increase in the value of the investment in subsidiaries.
3 An impairment charge of £60.0 million (2009: £864.0 million) has been recognised on the investment in Stansted Airport Limited (2009: Heathrow, Stansted Airport Limited and Gatwick).

The Company's principal subsidiaries are as follows:

Subsidiary	Nature of Business	% of share capital held	Class of share
Heathrow Airport Limited	Airport Operator	100	Ordinary shares of £1 each
		100	Redeemable Preference shares of £1 each
		100	Irredeemable Preference shares of £0.01 each
Stansted Airport Limited	Airport Operator	100	Ordinary shares of £1 each

The Company's principal indirect subsidiary is as follows:

Subsidiary	Nature of business	% of share capital held	Class of share
Heathrow Express Operating Company Limited	Railway Operator	100	Ordinary shares of £1 each

The Company owns all of the £1 Redeemable Preference shares issued by Heathrow. These shares carry an entitlement to an annual dividend fixed by reference to the prospective real redemption rate, based on a projected inflation rate of 3%, on 2.5% index-linked 2016 UK gilts, uplifted for movements in the Retail Prices Index.

The preference shares of £1 each are redeemable by the subsidiary on 16 January 2016 at £1.37 per share, uplifted for movements in the Retail Prices Index. On a return of capital on winding up or capital reduction, the holders of the preference shares shall be entitled to a sum calculated in accordance with the Articles of Association, in priority to any payment to the holders of any other class of shares other than the holders of irredeemable preference shares.

The Company also owns all of the £0.01 Irredeemable Preference shares issued by Heathrow. These shares carry an entitlement to an annual dividend uplifted by reference to the Retail Prices Index.

In the opinion of the Directors, the value of the shares in the subsidiary undertaking is not less than the amount at which they are stated in the Company's Balance sheet.

8 Debtors

	31 December 2010	31 December 2009
	£m	£m
Amounts owed by group undertakings – interest free[1]	**1.0**	1.8
Amounts owed by group undertakings – interest bearing[2]	**16.3**	59.0
Group relief receivable	**-**	0.1
Interest receivable	**3.0**	0.3
Other debtors	**0.2**	0.8
	20.5	62.0

1 Amounts owed by group undertakings - interest free largely relate to dividends receivable from subsidiary companies.
2 Amounts owed by group undertakings - interest bearing represent the loan advanced to Heathrow and bears an interest rate of 7.57% per annum as at 31 December 2010 (2009: 7.57%).

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

9 Restricted cash

At 31 December 2009, £143 million of proceeds from the sale of Gatwick were held in escrow to be used primarily to settle a commutation payment into the BAA Group's defined benefit pension scheme. This was settled during 2010.

10 Creditors: amounts falling due within one year

	31 December 2010 £m	31 December 2009 £m
Trade creditors[1]	**0.8**	0.6
Amounts owed to group undertakings – interest free[2]	**0.9**	17.1
Group relief payable	**0.3**	-
Other creditors	**-**	1.4
	2.0	19.1

[1] Trade creditors are non-interest bearing and generally on 30-day terms.
[2] Amounts owed to group undertakings are with BAA Airports Limited and interest free.

11 Provisions for liabilities and charges

	£m
1 January 2010	34.8
Utilised in the year	(19.8)
31 December 2010	**15.0**

A provision of £15.0 million (2009: £34.8 million) is held for costs associated with the disposal of Gatwick. All amounts are expected to be utilised in 2011.

12 Share capital

	£
Authorised	
9,000,000,000 ordinary shares of £0.0015 each	**13,500,000**
Called up, allotted and fully paid	
In issue at 1 January 2010: 7,156,184,863 shares of £0.0015 each	10,734,277
Issue of 217,370,315 ordinary shares of £0.0015 each[1]	326,055
In issue at 31 December 2010: 7,373,555,178 ordinary shares of £0.0015 each	**11,060,332**

[1] On 28 January 2010, the Company issued 217,370,315 ordinary shares of £0.0015 each at £1 each to BAA (SP) Limited.

13 Reserves

	Share premium reserve £m	**Profit and loss reserve £m**	**Total £m**
1 January 2010	282.2	4,723.7	5,005.9
Loss for the financial year	-	(40.7)	(40.7)
Dividends paid[1]	-	(63.3)	(63.3)
Capital distribution[2]	-	(16.2)	(16.2)
Arising on share issue on 28 January 2010	217.0	-	217.0
31 December 2010	**499.2**	**4,603.5**	**5,102.7**

[1] The dividend of £63.3 million was paid to BAA (SP) Limited.
[2] In June 2010, the Company made a commutation payment to BAA Airports Limited defined benefit pension scheme following the disposal of Gatwick. As a result of this payment, the benefit was proportionally allocated to Heathrow, Stansted Airport Limited and Heathrow Express Operating Company Limited. The benefits received by these subsidiaries are shown as an increase in the value of the investment in subsidiaries of £88.5 million (refer to Note 7), however, the benefit received by the other BAA Group's airports is shown as a capital distribution of £16.2 million.

14 Contingent liabilities

The Company, together with Heathrow, Stansted Airport Limited, Heathrow Express Operating Company Limited and BAA (SP) Limited (together, 'the Obligors') have granted security over their assets to secure their obligations under their financing agreements. Each Obligor has also provided guarantee in respect of the obligations of the other Obligors.

15 Ultimate parent undertaking

The immediate parent undertaking is BAA (SP) Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group in the UK to consolidate these financial statements. The shareholders of FGP Topco Limited are Finecofer S.L. (55.9%) (a subsidiary of Ferrovial, S.A.), Britannia Airport Partners L.P. (26.5%) (a Caisse de 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 (SP) Limited for the year ended 31 December 2010, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of BAA (SH) plc, BAA Limited and FGP Topco Limited for the year ended 31 December 2010.

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

16 Post balance sheet events

On 17 February 2011, BAA was refused permission to appeal to the Supreme Court ('SC') in what would have been the latest stage of a legal process underway since the Competition Commission ('CC') published in March 2009 its decision relating to its investigation into the supply of UK airport services by BAA. The key structural remedy in the CC's decision called for the disposal of certain airports including Stansted and either Glasgow or Edinburgh. The consequences of the SC's decision for airport disposals are unclear as the CC has stated that it does not expect to publish until March 2011 its provisional decision from its recent consultation as to whether there have been material changes in circumstances since its original decision in March 2009 that might lead it to amend the scope of the remedies requiring BAA to dispose of certain airports. In addition, BAA continues to consider its options in terms of next steps in this process.